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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS,
COMMITTEE ON FINANCE

OF THE

U.S. SENATE

AND THE

COMMITTEE ON FOREIGN AFFAIRS,
COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

BY THE

DEPARTMENT OF STATE

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

FEBRUARY 1994

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[1] Macedonia has proclaimed independent statehood but has not been formally recognized by the United States as a state There has been a dispute regarding the name under which it should be recognized. We use "Macedonia" in this report informally for convenience; its use is not intended to have international or diplomatic significance.

[2] Serbia and Montenegro have asserted the formation of a joint independent state, but this entity has not been formally recognized as a state by the United States.

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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.

CLAIBORNE PELL,
Chairman, Committee on Foreign Relations,

DANIEL PATRICK MOYNIHAN,
Chairman, Committee on Finance.

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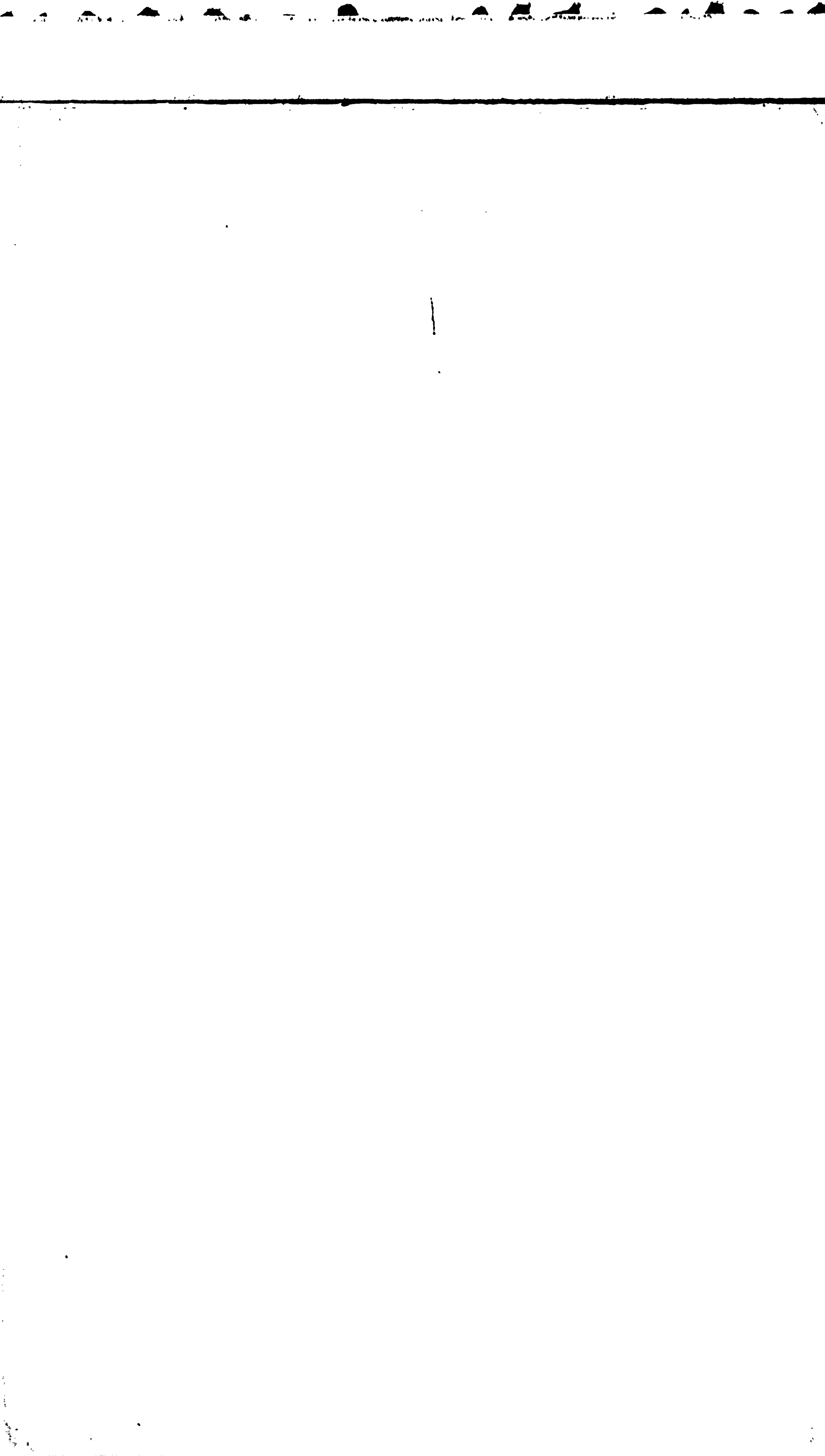

LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 31, 1994.

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

Hon. DANIEL PATRICK MOYNIHAN,
Chairman, Committee on Finance.

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

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

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

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

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

Sincerely,

WENDY R. SHERMAN,
Assistant Secretary, Legislative Affairs.

Enclosure.

INTRODUCTION

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared 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 also have 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 sixth annual report. The document has grown in coverage and scope since the series began in January 1988. It now includes over 100 countries.

Each report contains nine sections.

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

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

The country reports are based on information supplied by U.S. Embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have workedto 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.

DANIEL K. TARULLO,
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 8) are preliminary abridged versions of section 6 in the *Country Reports on Human Rights Practices for 1994*, submitted to the Committees on Foreign Affairs of the House of Representatives and on Foreign Relations of the U.S. Senate in January, 1994. 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 1992 for all countries for which foreign direct investment has been reported to it. Readers should note that "U.S. Direct Position Abroad" is defined as "the net book value of U.S. parent companies' equity in, and net outstanding loans to, their foreign affiliates" (foreign business enterprises owned 10 percent or more by U.S. persons or companies). Where a figure is negative, the U.S. parent owes money to the affiliate. The table does not necessarily indicate total assets held in each country. In some instances, the narrative refers to investments for which figures may not appear in the table.

SOME FREQUENTLY USED ACRONYMS

ADB—Asian Development Bank
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

AFRICA

ANGOLA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992[1]	993[2]
Income, Production, and Employment:			
Nominal GDP (at current prices)	8,750	8,279	N/A
Real GDP Growth (pct.)	−1.6	1.3	N/A
By Sector (percent share):			
Oil	55	N/A	N/A
Other	45	N/A	N/A
Net Exports of Goods and Services	3,620	3,968	N/A
Nominal GDP Per Capita (US$)	84[illegible]	781	N/A
Unemployment Rate (percent)[3]	N/A	22.3	N/A
Money and Prices (annual percent growth):			
Money Supply (M2)	68.5	299.9	N/A
Retail Inflation[3]	175.7	526.2	1,687.2
Consumer Price Index[3]	275.7	1,642.7	11,210.4
Exchange rate (NKZ per US$):[4]			
Official (annual average)	66.1	442	4,000
Parallel (end-of-period)[3]	1,075	6,900	65,000
Trade and Balance of Payments:			
Total Exports (FOB)	3,449	3,795	N/A
Exports to U.S. (CIF)	1,786	2,303	N/A
Total Imports (FOB)	1,347	1,631	N/A
Imports from U.S. (FAS)	188	158	N/A
Aid from U.S	16.6	70	N/A
External Public Debt[5]	7,537	8,021	N/A
Debt Service Payments (paid)	416	N/A	N/A
Gold and FOREX Reserves	342.5	509	N/A
Trade Balance	2 102	2,164	N/A
Balance with U.S	1,598	2,145	N/A

N/A—Not available.

[1] Estimated and/or based on incomplete data.

[2] Based on January–October data.

[3] Data for Luanda only.

[4] See section 2 for exchange rate information.

[5] Medium- and long-term debt; excludes a portion of the oil companies' debt and short-term commitments.

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 Government of Angola and the National Union for the Total Independence of Angola (UNITA) from 1975 until May 1991, and again from November 1992 until the present, has 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 deci-

sion-making further hindered development. Only the country's oil sector, jointly run by foreign oil companies and the state oil firm Sonangol, has remained well-managed and prosperous. Angola currently produces over 500,000 barrels per day of crude. Oil accounts for the majority of real GDP, over 90 percent of exports, and over 80 percent of government revenues.

Urban populations swollen by internally-displaced refugees have subsisted largely on foreign food aid or extensive parallel markets based on barter and currency dealing. The bulk of the rural population carves out a living in marginal security, surviving by subsistence farming. Administrative chaos, corruption, hyperinflation, and war have vitiated normal economic activity and attempts at reform.

The public sector budget has been perpetually in deficit from the heavy military spending burden, and the deficit was exacerbated by a massive increase in government spending during the electoral period between May 1991 and September 1992. 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 if any corresponding improvement in the supply of goods and services. Shortages, price controls, and erosion of confidence in the national currency encouraged parallel markets and widespread dependence on barter or dollar transactions.

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-monitored ceasefire, the creation of a new, nonpartisan 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 considered generally free and fair by the United Nations were held on September 29–30. However, the losing party, UNITA, refused to accept the results, and fighting resumed. Negotiations held during 1993 have yet to produce a settlement between the combatants.

The long-term effects of the war, the destruction of infrastructure, and years of economic mismanagement 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, requiring significant inflows of foreign assistance and investment.

The government has tried to carry out reforms and to structure the economy along market lines. Beginning in 1987, it has launched various programs aimed at privatization, liberalization, devaluation of the kwanza, and new rigor in financial management. Most of these programs have enjoyed little success.

The government claims to welcome foreign trade and investment, and eagerly seeks western participation in development projects. Barriers to U.S. exports and capital lie not in deliberate government policies but in war-caused uncertainty, the government's scarcity of resources, and its ineffectiveness and poor management. The oil sector, the only functional part of the Angolan economy managed by the government and largely isolated from the civil war, has been the focus of U.S.-Angolan trade and investment. The U.S. buys about 90 percent of Angola's oil exports, while equipment for the sector accounts for much 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 and investment in Angola.

2. Exchange Rate Policy

From 1978 to September 1990, the government maintained the official exchange rate for the kwanza, a non-convertible currency, at 29 to the U.S. dollar. The new kwanza (nkz) replaced the kwanza at par in September 1990. In March 1991, the government devalued the new kwanza by 50 percent. Subsequent devaluations brought the official rate to nkz 550 to the dollar by April 1992. In an attempt to narrow the gap between that rate and a parallel market rate several times higher, the government adopted a program of currency auctions in late 1992 and early 1993 that led to the devaluation of the currency to 7,000 to the dollar. In March 1993, the government revalued the new kwanza to 4,000 to the dollar, but in October devalued to 6,500, the current official rate.

In spring 1993, the government inaugurated a floating rate 80 percent of the parallel market rate, meant to increase the availability of hard currency for certain categories of purchases and purchasers, namely, foreign travel and study, foreign medical and legal expenses, and approved imports. Access to this floating rate has widened somewhat in recent months beyond those with privileged access to government officials. The government has also licensed a private foreign exchange house to trade

hard currency at prevailing market rates. The still-prevalent parallel market is tolerated by the government, and there has been no effort to prosecute those involved or to reduce their ability to operate. The government has stated in recent declarations its intention to bridge the wide gap between official and parallel market rates through a series of devaluations next year.

3. Structural Policies

Angola's economic policy remained in flux in 1993. The government has taken some steps to reduce its role in the economy, and has reduced or eliminated subsidies and controls of some foodstuffs and other consumer products. Nevertheless, it has been criticized by the IMF, World Bank, and bilateral donors for not going far enough. Specifically, the Government's inability to combat hyperinflation successfully , to move towards unification of the exchange rates, to control money supply growth, and to reduce the deficit has engendered frustration from international institutions and bilateral donors. Angola has yet to agree with the IMF on a structural adjustment program.

4. Debt Management Policies

The government began substantial foreign borrowing only in the early 1980's, 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, estimated by the IMF to be over $3.1 billion at the end of 1992, have forced major Western export credit agencies to suspend or highly restrict cover to the country.

Total foreign debt is now over $8 billion and at the end of 1992 was 97 percent of GDP and 202 percent of exports, according to the IMF. Approximately half of the debt is owed to the former Soviet Union and its former satellites for military purchases between 1975 AND 1991.

In 1989, Angola joined the IMF and the World bank, and was able to secure the rescheduling of over $1.8 billion in Paris Club and other debt. Creditors subsequently rescheduled $669 million of Angola's non-Paris Club debt in 1990, but only about $40 million in 1991 and 1992. The government has admitted that it will be unable to lighten its debt burden without an agreement with the IMF on structural adjustment of the economy.

5. Significant Barriers to U.S. Exports

The establishment of diplomatic relations between the U.S. government and the Republic of Angola effective June 18, 1993 has in effect ended the previous legal constraints on U.S. Exports, namely the prohibition of extension of Export-Import Bank (EXIM) cover, and the denial of foreign tax credits for U.S. entities earning income in Angola. EXIM cover is not available at the present time, however, because of the elevated business risk in Angola and Angola's extensive outstanding arrears.

The Overseas Private Investment Corporation (OPIC) has yet to commence issuing insurance policies and other guarantees for U.S. private investments in Angola pending the signing of an investment agreement between OPIC and the Republic of Angola.

The U.S. Department of Agriculture (USDA) made $10 million dollars in agricultural export loan guarantees available to Angola for the purchase of U.S. agricultural products under the GSM–102 program for 1992. However, only $5 million in guarantees were used, and Angolan financial authorities built up arrears of $3 million. This prevented the renewal of GSM–102 loan guarantees for 1993. In September of 1993, these arrears were cleared, enabling USDA to consider the appropriateness of a GSM–102 program for Angola in 1994.

The U.S. government continues to prohibit the transfer of U.S.-origin lethal material to all entities in Angola under the "triple zero clause" of the Bicesse Peace Accords and international traffic in arms regulations, and to prohibit by executive order the transfer of all defense articles and petroleum products to UNITA. The U.S. government has lifted the restriction on the private transfer of U.S.-origin non-lethal defense articles to the Government of Angola, with a presumption of approval of applications for export licenses for such transfers.

Since the sharp decline of its coffee and diamond sectors, Angola's ability to import has depended entirely on oil earnings, and has been severely constrained by the diversion of resources to defense spending since the return of hostilities in late 1992. According to Angolan and foreign importers, the procurement of import licenses from government authorities has become easier during 1993. The process, however, still lacks transparency, especially in the acquisition of import licenses for goods to be purchased with government-provided foreign exchange.

The Angolan government is in the process of revamping its foreign exchange allocation process. The government still plays a significant role in imports through the activities of state firms and ministries, despite recent attempts at liberalization.

The government claims that up to 90 percent of its expenditures are currently dedicated to the defense effort; individual importers report that it is very difficult to receive payment from the government for imports not related to defense or foodstuffs. Foreign investment regulations enacted since the late 1980's have been aimed at opening up more sectors to foreign investment, and at simplifying the process for potential foreign investors. Regulations and the lack of implementation of reforms continue to prohibit or limit foreign investment in defense, banking, posts and public telecommunications, 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 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 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. *The Right of Association.*—The 1991 constitution recognizes the right of Angolans to form trade unions and to bargain collectively. The law governing unions has yet to be passed; free labor organizations cannot yet affiliate with international labor bodies. The National Union of Angolan Workers (UNTA), the official union of the ruling MPLA, remains the principal worker organization. Unta is affiliated with the Organization of African Trade Union Unity and the formerly communist-dominated World Federation of Trade Unions.

b. *The Right to Organize and Bargain Collectively.*—The constitution provides for the right to strike. Legislation passed in 1991 provides the legal framework to strike, including prohibition of lockouts, protection of nonstriking workers, and prohibition of worker occupation of places of employment. Strikes by military and police personnel, prison workers, and firemen are prohibited. The ministry of labor and social security continues to set wages and benefits on an annual basis. Salaries for public servants are set at the minister's discretion; salaries of parastatal employees are based on profits of the previous year and available loans from the central bank. Angola has no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—New labor legislation prohibits forced labor, reversing previous laws and provisions which had been cited by the International Labor Organization (ILO) for violation of Convention 105. The previous legislation authorized forced labor for breeches of worker discipline and participation in strikes.

d. *Minimum Age for Employment of Children.*—The legal minimum age for employment in Angola is 14. The inspector general of the Ministry of Labor is responsible for enforcing labor laws. Labor Ministry registration centers screen out applicants under the age of 14. However, children at a much younger age work throughout the informal sector.

e. *Acceptable Conditions of Work.*—The monthly minimum wage stands at 120,000 kwanzas, equivalent to about $18 at the official exchange rate but less than $2 at the parallel market rate. Most workers depend on the thriving informal sector, second jobs at night, subsistence farming, theft, corruption, or overseas remittances to maintain an acceptable standard of living. The normal workweek is 44 hours. No information is available on adequacy of work conditions or health standards, but in most cases it is assumed they do not approach Western standards, given the extreme underdevelopment of the Angolan economy, lack of enforcement mechanisms, and the war.

f. *Rights in Sectors With U.S. Investment.*—U.S. investment in Angola is concentrated in the petroleum sector. There is no specific information available on the conditions for workers in this sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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
Banking		0
Finance and Insurance		(1)
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

GABON

Key Economic Indicators

[Millions of CFA francs unless otherwise noted]

	1991	1992[1]	1993
Income, Production, and Employment:			
GDP (current prices, bn. CFA)	1,451.5	1,471.9	N/A
Nominal GDP (pct. change)	0.5	1.4	N/A
GDP by Sector (pct.):			
Primary	9.2	12.2	N/A
Secondary	50.5	50.8	N/A
of which Extractive	39.4	40.2	N/A
Tertiary	35.0	37.0	N/A
of which Public Admin	12.3	13.2	N/A
Labor Force (000's)	300.0	300.0	N/A
Money and Prices:			
M2 (bn. CFA)	308.0	298.3	N/A
Commercial Lending Rate (pct.)	18.2	18.0	N/A
Savings Rate (pct.)	24.4	24.0	N/A
Investment Rate (pct.)	19.0	26.0	N/A
Exchange Rate (CFA franc per $, avg.)	282.5	264.5	[2] 285.0
Trade and Balance of Payments (in millions of U.S. dollars):			
Total Exports (FOB)	2,284.0	2,315.1	N/A
Exports to U.S	763.5	968.0	N/A
Total Imports (CIF)	702.0	867.9	N/A
Imports from U.S	79.8	75.7	N/A
Aid From U.S. (thousand US$)	185.0	163.0	N/A
External Public Debt	3,500	N/A	N/A
Payments Made[3]	130	N/A	N/A
Debt Service Ratio (pct.)	40.5	36.4	N/A
Foreign Exchange Reserves:			
Gross	36.0	5.8	N/A

Key Economic Indicators—Continued

[Millions of CFA francs unless otherwise noted]

	1991	1992[1]	1993
Gold	4.1	N/A	N/A
Balance of Payments:			
on Current Account	290.7	N/A	N/A
on Capital Account	-370.2	N/A	N/A
Basic Balance	-79.4	N/A	N/A

N/A—Not available.

[1] The figures reported for 1992 are estimates, drawn in most cases from Central Bank/IMF data.

[2] Estimated.

[3] Gabon has only serviced its debt selectively since the middle of 1989, and virtually discontinued debt service starting in 1990. Although a new Standby 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.

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. Although most finished goods are imported, there is some manufacturing in Gabon including factories which produce plywood, plastics, and cigarettes; a brewery; and an oil refinery. 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 and 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 five percent in 1990, and have since climbed again past six 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 (AFDB). 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, 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 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 is 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 seven percent of GDP to over eleven 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. 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. *The 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. *The 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).

d. *Minimum Age for Employment of 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		196
Total Manufacturing		(1)
Food & Kindred Products	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		(2)
Finance and Insurance		0
Services		4
Other Industries		
TOTAL ALL INDUSTRIES		244

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

GHANA

Key Economic Indicators

[Millions of cedis unless otherwise indicated]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985) prices)[2]	456,800	474,600	N/A
Real GDP Growth (pct.)	5.0	3.9	N/A
GDP (at current prices)[2]	2,574,800	3,008,800	N/A
By Sector:			
Agriculture	1,252,025	1,461,005	N/A
Energy and Water	51,951	63,130	N/A
Manufacturing	225,078	261,538	N/A
Construction	89,195	105,216	N/A
Financial Services	107,392	108,227	N/A
Other Services	800,928	941,036	N/A
Net Exports of Goods and Services	N/A	481,408	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2, million cedis)	325,900	360,690	N/A
Base Interest Rate (pct.)[3]	20.0	30.0	35.0
Retail Inflation (pct.)	10.3	10.1	N/A
Consumer Price Index (1985–100)	469.8	529.0	N/A
Exchange Rate (cedi/$):			
Official	390	520	780
Parallel	N/A	545	N/A
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)[4]	992.7	986.0	N/A
Exports to U.S	151.6	96.4	N/A
Total Imports (CIF)[4]	1,255.0	1,457.0	N/A
Imports from U.S	142.0	123.8	N/A
Aid from U.S	38.0	43.0	63.7
Aid from Other Countries	970.0	N/A	N/A
External Public Debt	4,100.0	4,600.0	N/A
Debt Service Payments (paid)	307.0	383.0	N/A

Key Economic Indicators—Continued

[Millions of cedis unless otherwise indicated]

	1991	1992	1993[1]
Gold and FOREX Reserves	35.0	362.0	N/A
Trade Balance[4]	−301.5	−470.3	N/A
Balance with U.S	9.6	−27.3	N/A

N/A—Not available.
[1] 1993 Figures are based on available monthly data in November.
[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 operates in an open market environment under a civilian government headed by elected president Jerry John Rawlings. Rawlings headed a self-styled "provisional" regime from the end of 1981 until January 1993 when democratic government, under a written constitution, was restored. A popularly-elected parliament took office in January. The executive branch takes the lead in promulgating legislation which requires parliamentary approval before enactment. The judiciary, in particular the supreme court, acts as the final arbiter of Ghanaian laws. As an indication of its independence, the supreme court rendered several decisions in 1993 in favor of parties bringing suit against the government's executive branch.

The government has maintained the reform measures and budgetary austerity of a structural adjustment program (SAP) adopted in 1983 by the previous military government. The program has been characterized by an emphasis on development of Ghana's private sector, which historically has been weak and more keenly involved in buying and selling of imports rather than domestic production of goods and services. Ghana seeks to privatize a large number of enterprises which currently operate under government control or outright ownership. Other reforms adopted under the SAP include the elimination of exchange rate controls on the cedi and the lifting of virtually all restrictions on imports, as well as the liberalization of access to foreign exchange. The tariff structure in place is designed to discourage importation of a limited number of luxury items deemed non-essential to the growth needs of the economy. A largely dysfunctional duty drawback scheme offers theoretical, rather than actual, encouragement for the importation of raw materials needed in the processing of finished goods for subsequent export. The elimination of virtually all local production subsidies characterizes the overall greater reliance on market conditions for the determination of the value of goods and services introduced into channels of commerce.

Ghana remains dependent on donor assistance and received pledges amounting to $2.1 billion from the donor community for the two-year period beginning January 1, 1994. The World Bank is the largest donor, offering assistance at an annual level of approximately $300 million in the form of sectoral and structural adjustment credits. Ghana succeeded in eliminating its remaining debt arrears by mid-1991 and has not rescheduled official or commercial bank credits in the meantime. Ghana graduated from its IMF Enhanced Structural Adjustment Facility (ESAF) as of December 1991 and support from IMF now takes the form of a surveillance regime monitoring developments in Ghana's macroeconomy.

2. Exchange Rate Policy

Ghana has placed its exchange rate policy at the service of efforts to achieve equilibrium in its annual balance of payments. Ghana has pursued a flexible exchange rate policy in its effort to reach international reserve targets. As imports have shown a sharp increase over time, the Government of Ghana—with the encouragement of the World Bank and the International Monetary Fund—has been content to allow the cedi to depreciate.

Despite a brief intervention by the central bank to support the cedi in the second quarter, in dollar terms the cedi lost more than 50 percent of its value in the year to date.

The Bank of Ghana (the central bank) retains all hard currency earnings on the sale of cocoa and a sliding scale percentage of earnings on gold exports. Foreign exchange is made available to importers through the commercial and merchant banks as well as independently-operated foreign exchange bureaus. A chronic shortage of foreign exchange supplied to banks by the Bank of Ghana has caused frequent delays for importers settling their overseas accounts. Foreign currency accounts may be held in local banks with interest (except on export earnings) exempt from Gha-

naian tax. Transfers abroad are free from foreign exchange control restrictions. Taken in its entirety, the exchange rate regime in Ghana is seen to have no particular impact on the competitiveness of U.S. exports.

3. Structural Policies

Ghana is a member of the GATT, but its adherence to its GATT obligations has been compromised by the need to stem the outflow of hard currency to overcome external payments difficulties. During the course of Ghana's SAP, it has progressively wound down import quotas and surcharges. Tariff structures are being adjusted in harmony with the ECOWAS trade liberalization program and U.S. companies are well-advised to make inquiries on a case-by-case basis.

With the elimination of import licensing in 1989, importers now are merely required to sign a declaration that they will comply with Ghanaian tax and other laws. The Government of Ghana is seen to be strongly committed to principles of free trade, upon which support from the Bretton Woods institutions is predicated. However, the government is also committed to the development of competitive domestic industries with exporting capabilities. The Government of Ghana is expected to continue to support promising domestic private enterprise with incentives and financial support. Beyond this, Ghanaian manufacturers clamor for stronger measures and voice displeasure that Ghana's tariff structure places local producers at a competitive disadvantage vis a vis imports from countries enjoying greater production and marketing economies of scale. High costs of local production frequently boost the price of locally-manufactured items above the landed cost of goods imported from Asia and elsewhere. Reductions in tariffs have increased competition for local producers and manufacturers while reducing the cost of imported raw materials.

Under the SAP, in addition to reducing tariffs, the Government of Ghana has afforded various forms of personal and corporate tax relief. Over the last two years, the government eliminated the experimental "super sales tax" on luxury vehicles and consumer goods and maintained lower tax rates on annual personal income below the equivalent of $19,000. The top corporate tax rate for producer industries is 35 percent. Income earned by banks and other financial institutions is taxed at 45 percent. Balanced against this, the government imposed a 60 percent surcharge (ex-pump) on all petroleum products in 1993 and has signaled that an increase of at least 25 percent is in order for 1994.

4. Debt Management Policies

Total outstanding public and government-guaranteed external debt increased during 1991 and 1992 to 4.6 billion dollars, or 58 percent of GDP. External debt increased from 27 percent of exports in 1991 to 30 percent of exports in 1992. However, interest and principal payments continued to decline in nominal terms and Ghana's external debt indicators showed significant improvements, reflecting a change in the composition of new borrowing in favor of financing with generous grant elements. In mid-year 1991, Ghana succeeded in clearing all external debt arrears and has maintained this position ever since.

Based on anecdotal rather than exhaustive empirical information, the tight spending policies that Ghana's government has adopted in order to manage its current debt situation have had an impact on imports from the U.S., which were reduced from $151.6 million in 1991 to $96.4 million in 1992.

5. Significant Barriers to U.S. Exports

Import licenses: Ghana eliminated the last vestiges of its import-licensing system in 1989. 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: Under the Investment Code of 1985 (as amended), the Government of Ghana imposes barriers on foreign participation in the following sectors: small-scale wholesale and retail sales, taxi and car rental services with fleets of fewer than ten vehicles, lotteries, and barber and beauty shops.

Standards, testing, 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 seizure. The thrust of this law is to regulate imported food and drugs; however, by its terms the law applies to non-consumable imports as well. Locally manufactured goods are subject to comparable testing, labeling, and certification requirements.

Investment barriers: under the investment code, the government guarantees free transferability of dividends, loan repayments, licensing fees and repatriation of capital; provides guarantees against expropriation or forced sale; and delineates dispute arbitration processes. Foreign investors are not subject to differential treatment on taxes, prices or access to foreign exchange, imports and credit. Separate legislation provides for investments in mining and petroleum and applies equally to foreign and Ghanaian investors.

Prospective investors are screened in accordance with their capacity to contribute to any of nine goals listed in the investment code (e.g., development and transfer of technology). The Ghana Investments Center (GIC) registers and may regulate such transfers. Official policies do not restrict U.S. exports or direct investment although, as noted above, some activities are closed to foreign investment. Land ownership is prohibited, although expatriate companies may own fixtures constructed on leased lands. In 1993, the government lifted the requirement that non-Ghanaians receive prior central bank approval before investing in public corporations listed on the Ghana Stock Exchange.

The Ghana Investments Center may stipulate the amount and source of capital, nationality and number of shareholders, project size, training required for Ghanaians, time for implementation, utilization of local raw materials and other criteria. The government has exhibited flexibility and pragmatism in establishing its requirements.

Government procurement practices: Government purchases of equipment and supplies are usually handled by the Ghana Supply Commission (the official purchasing agency), through international bidding and, at times, through direct negotiations.

Former government import monopolies have been abolished. However, parastatal entities continue to import some commodities, principally wheat and cooking oil. The parastatals no longer receive government subsidies to finance imports.

6. *Export Subsidies Policies*

The Government of Ghana does not directly subsidize exports. By law, exporters are entitled to an 85 percent drawback of duty paid on imported inputs used in the processing of their exports. However, there are only three known cases where companies have taken advantage of the duty drawback scheme since its inception in the late 1980's.

Ghana has created an export finance company utilizing World Bank/IDA funding to establish a capital pool dedicated 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 Ghanaian independence, Ghana offers protection to patents registered in the United Kingdom. Following independence in 1957, Ghana instituted separate legislation for copyright (1961) and trademark (1965) protection. The government is drafting its own patent legislation but, in the meantime, the patent laws of the U.K. still apply.

Ghana is a member of the English-speaking African Regional Intellectual Property Organization and the World Intellectual Property Organization. It has adhered to the Bern and Universal Copyright Conventions and the Paris Convention for the Protection of Industrial Property. Ghana offers protection to intellectual property rights (IPR) holders who are citizens of fellow signatory countries to the conventions Ghana has ratified. Aggrieved IPR holders have access to local courts for redress. There have been no more than a handful of infringement cases filed in Ghana over the past five years.

Patents (product and process): Patent registration in Ghana presents no serious problems for foreign rights holders. Fees for registration by local applicants are 15,000 cedis ($20 dollars) and $90 dollars for foreign applicants.

Trademarks: Ghana has not yet become a popular location for mock designer apparel and watches. In cases where trademarks have been infringed, the price and quality disparity would alert all but the most unsuspecting buyers.

Copyright: Local enforcement of foreign copyrights tends to be lax. The bootlegging of computer software provides a leading example of copyright infringement taking place locally. There is no data available to quantify the commercial impact of this practice. The greatest impact on U.S. business in terms of lost sales and revenue stems from the pirating of videotapes. Locally-pirated material (including feature films shown in theaters as well as bootlegged imports) is common. Observers are unaware of any significant export market for Ghanaian-pirated books, cassettes, or videotapes.

8. Worker Rights

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

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

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

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

e. *Acceptable Conditions of Work.*—A tripartite committee of representatives from government, organized labor, and employers established a minimum wage of 460 cedis (less than $1.00) 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 are in effect and sanctions are occasionally applied through the labor department of the Ministry of Health and Social Welfare. Safety inspectors are few in number and poorly trained. Inspectors will take action if matters are brought to their attention but lack the resources to seek out violations.

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. There is also significant U.S. 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 described above. 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products		2
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance and Insurance		0
Services		0

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Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	(1)
TOTAL ALL INDUSTRIES	113

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

KENYA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1982 Prices) [2]	3,165	2,773	1,498
Real GDP Growth (pct.)	2.2	0.4	1.0
GDP (at current prices) [2]	8,278	8,562	4,603
By Sector:			
Agriculture	2,260	2,226	1,197
Electricity and Water	91	86	46
Manufacturing	1,118	1,164	626
Building and Construction	267	265	142
Financial Services	679	745	401
Trade, Restaurants and Hotels	902	942	506
Government, Health, and Education	828	856	460
Net Exports of Goods and Services	2,214	2,108	1,061
Real Per Capita GDP (1982 prices)	132	123	55
Labor Force (000's)	10,500	11,100	11,800
Unemployment Rate [3]	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	19.7	34.6	26.0
Base Interest Rate [4]	22.0	25.0	27.0
Personal Saving Rate	14.5	15.5	20.0
CPI (1986 prices)19.6	27.5	41.0	
Exchange Rate (avg. Ksh/$): [5]			
Official	27.7	32.0	58.8
Parallel (inter-bank)	35.0	45.0	65.0
Balance of Payments and Trade:			
Total Exports (FOB)	1,062	1,033	633
Exports to U.S	41	58	53
Total Imports (CIF)	2,104	2,011	1,208
Imports from U.S	104	116	104
Aid from U.S	51.6	30.8	20.2
External Public Debt	6,100	5,600	6,300
Debt Service Payments (paid)	N/A	265	436
Gold and FOREX Reserves	302	255	150
Trade Balance [5]	−1,042	−978	−575
Balance with the U.S	−63	−58	−51

N/A—Not available.
[1] 1993 Figures are estimates based on Jan.-Sept. 1993 data.
[2] GDP at factor cost.
[3] The Kenyan government does not publish unemployment figures but in 1993 it is likely to be in the range of 35–40 percent.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] The official exchange rate is used in conversion. As of October, 1993 the official rate was aligned to the inter-bank rate.

1. General Policy Framework

Kenya's mixed economy has an active private sector and a large inefficient public sector. The primary basis of the economy is agriculture. Agriculture contributes a declining 26 percent of gross domestic product (GDP), and provides 75 percent of total employment and 55 percent of export earnings. The main foreign-exchange earners are coffee, tea and tourism. The industrial sector, which accounts for 14 percent of GDP, is dominated by import-substituting industries, most of whose products are not competitive beyond markets in the neighboring countries.

In 1992, GDP grew by a poor 0.4 percent, compared to 4.2 percent in 1990 and 2.2 percent in 1991. A drought in 1992 caused agricultural output to decline by a record 4.2 percent, causing significant shortfalls in food production. As a result, Kenya increased imports of cereals and sugar in 1992 and again in 1993 to supplement domestic production. Inflation grew rapidly, reaching 100-percent (at an annualized rate) in the month of June 1993, largely due to excessive growth in money supply and depreciation of the local currency.

In late 1991 the government embarked on a divestiture program that listed 139 parastatals for privatization. Thus far, the government has liquidated or divested its shareholdings in 22 inconsequential companies. Over 100 parastatals remain on the privatization list. The more problematic giants such as those in maize marketing and utilities, having been categorized as strategic, are slated for restructuring, not privatization.

Under a tax modernization program, the government has widened the tax base, lowered income taxes, and introduced the use of personal identification numbers in tax-related transactions. The government obtains over two-thirds of its tax revenue from indirect taxes. The basic Value-Added Tax (VAT) accounts for over 50 percent of domestic revenue. Between 1992 and 1993, it has been expanded to cover a wide range of goods and services. The highest VAT rate is 40 per cent, but most goods are taxed at a rate of 18 percent. The maximum rate of income tax for individuals is 40 percent.

In 1993 the government implemented tight fiscal and monetary policy measures to stabilize the economy. After the multi-party elections held in December 1992, the government embarked on measures to mop up excess liquidity. The government relied heavily on the sale of Treasury bills and doubled the cash ratio. Starting in March 1993, the government has offered weekly sales of five billion shillings worth of Treasury bills at high rates ranging from 50 to 70 percent. This short-term austerity measure created a severe credit squeeze for investors as lending rates shot up to 35 percent. To further limit credit, the Central Bank raised the cash ratio maintained by banks from six percent in 1992 to twelve percent by end of October 1993. By end of September, the inflation rate was over 40 percent while growth in money supply had come down to 26 percent.

2. Exchange Rate Policy

From 1981 the local currency (Kenya shilling) has been pegged to the SDR. The Central Bank depreciated the Kenya shilling by 22 percent against the dollar in 1992 and by 85 percent in the first nine months of 1993. During this period the bank liberalized the foreign exchange regime, allowing a free market rate to be determined by commercial banks in addition to the official rate. Exporters were allowed to open foreign exchange accounts and to retain up to 50 percent of their earnings to pay obligations abroad.

In October, 1993 the bank aligned its official exchange rate with the parallel inter-bank commercial rate. Kenya now has a floating official rate. Shilling payments to exporters are the same for the 50 percent they sell to the government and the other half they are allowed to retain in the commercial market.

3. Structural Policies

After many years of delay, the government embarked on economic reform measures in 1992–93 period under a World Bank/IMF-sponsored structural adjustment program. The key elements of this program include reducing the budget deficit and inflation, providing market-based incentives to private sector growth, privatizing or restructuring state-owned enterprises, and encouraging investment and exports in order to achieve a five-percent rate of growth in GDP.

Encouraged by Kenya's progress in the economic front, the World Bank released the second tranche of the export development credit in May 1993. In his June 1993 budget speech, the new Finance Minister Musalia Mudavadi unveiled an ambitious budget that promised quick results on the alarming inflation rate and increased growth in GDP. In November 1993, the IMF praised Kenyan Government efforts to bring the economy back on track and was ready to establish a new program of as-

sistance. The Kenyan Government is optimistic that it will qualify for disbursement of $65 million Enhanced Structural Adjustment Facility (ESAF) money.

Major policies undertaken include government expenditure rationalization, price decontrol, export promotion, interest rate and foreign exchange rate liberalization, and capital market development. A number of weak financial institutions were brought under statutory management while disciplinary action was taken against politically-favored banks. Unsecured advances from the Central Bank were prohibited. Preshipment export financing and export compensation facilities were abolished, effectively eliminating a major source of corruption. The government abolished import licensing and has partially liberalized marketing of most items, including sugar, wheat and maize.

Trade barriers on certain products are maintained by high import duties and value-added taxes. Procurement decisions can be dictated by donor-tied aid, or influenced by corruption.

Although substantive economic reforms have been undertaken, not all bilateral donors are reassured about Kenya's progress towards political reform, which includes in part good governance, democratization, protection of human rights and elimination of corruption. Persistent ethnic violence complicates the political landscape.

4. Debt Management Policies

Over the past two years, Kenya has accumulated large debt arrears by neglecting external debt repayment. The average annual debt service bill is $580 million. Debt arrears, a relatively new phenomenon for Kenya, reached $713 million dollars at the end of September 1993. The debt service ratio is about 35 percent of total exports of goods and services. Lack of foreign exchange reserves has been a major economic constraint.

Kenya's balance of payments situation remained poor in 1993 owing to inadequate foreign exchange to finance imports, the high cost of imports, and the depressed state of the economy. Tourism earnings stagnated due to sporadic violence in tourist regions. The capital account performed poorly and, for the first time in history, capital outflows exceeded inflows in 1992. The net outflow was $171 million. This severely drained the country's foreign exchange reserves and the Kenyan government defaulted on external debt repayments. Although foreign exchange reserves rose from $190 million in March 1993 to $260 million in October 1993, the government deficit is above six percent of GDP. Few steps have been taken to curb losses in the big parastatals.

5. Significant Barriers to U.S. Exports

The liberalization of import controls and foreign exchange rates and controls are major positive steps towards removal of trade barriers. These actions coincide with a trend in Kenya over the past two years during which Kenya consistently lowered tariffs and reduced licensing requirements.

In June 1992 the government introduced a variable tariff for key imported food commodities, including wheat, rice, milk powder, maize and sugar. This variable duty is used to raise the price of imports to a predetermined floor price when the world price is lower than the domestic price.

The 1993 budget reduced the number of tariff rates from nine to six and the maximum tariff rate from 60 percent to 40 percent. Some items which were previously duty-free were placed in the bottom band. Duties on a number of manufactured items have been reduced. Computer imports are assessed a duty of 25 percent. The combined duty and VAT for automobiles ranges from 65 to 131 percent.

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

There are barriers to trade in services in video tapes, movies and cassettes, construction, engineering, architecture, legal representation, insurance, leasing, shipping, and foreign travel. Films are licensed, censored, and sold by the government company, Kenya Film Corporation. Foreign companies offering services in construction, engineering and architecture often face discrimination in bidding for public projects. Kenyan buyers of foreign goods are forbidden from insuring imports abroad. Kenya's draft shipping law has been the subject of official protests by the United States and the European Community for discrimination against foreign shipping.

Most commodities imported into Kenya are subject to preshipment inspection for quality and quantity as well as for price comparison. All foreign exporters have to

obtain a "Clean Report of Findings" from a government appointed inspection firm which has offices in major trading points such as New York, Baltimore, Chicago, New Orleans and Houston. Importation of animals, plants, and seeds is subject to quarantine regulations. Importation is allowed only at designated ports of entry. Special labelling is required for condensed milk, paints, varnishes, vegetable oil and ghee. In addition, imports of pre-packed 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. Government action is also evident in programs designed to ensure citizen control of local commerce. Because Kenya is a former British Colony, U.K. firms dominate in the procurement of government imports. Many government imports are purchased through Crown Agents, a British quasi-governmental organization. Sales of major import items are frequently tied to the source country providing official development finance.

Government procurement practices: Government procurement is done through tender boards. The main boards are the Central Tender Board, Ministerial Tender Boards, the Department of Defense Tender Board, and District Tender Boards. The Kenyan Government has a supplies manual outlining procurement practices. Goods worth over $4,000 must be purchased through open tender. Adjudication of the quotations must be made by three or more responsible officers.

The procurement regulations apply to all potential bidders regardless of nationality of supplier or origin of the product/service without discrimination. The regulations provide for preferential treatment for domestic suppliers, products, and services. Up to 10 percent preferential bias is allowed for all firms participating in Kenyan government tenders having 51 percent or more share capital held by indigenous Kenyans. The government provides preference to domestic suppliers for small procurements and contracts.

Practice often differs from government regulations. Tenders can be awarded to uncompetitive firms when government officials have interests. Such cases are common for medical tenders. The incidence of corruption at all levels has increased in Kenya in recent years and affects import license allocation and distribution rights as well as procurement. Prosecution of corrupt officials above the lowest level is rare. Corrupt contract awards are a particular problem for U.S. companies who are disadvantaged when competing with non-U.S. firms less constricted in their ability to provide "incentives" prohibited under U.S. laws.

Kenyan law does not permit manufacturers to distribute their own products. They are also required to supply information about their distributors. The Monopolies, Prices and Trade Restriction Practices Act sets a legal framework for dealing with restrictive and predatory practices preventing competitive markets, and controls monopolies, mergers, and takeovers of enterprises.

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

6. Export Subsidies Policies

In early 1993, the Kenyan government scrapped an export compensation scheme which reimbursed manufacturers whose products had less than 70 percent import content. In its place the government enacted a duty/value added tax remission facility which allows exporters to purchase tax-free material inputs locally. The government has plans to establish a "green channel" to simplify and speed up current lengthy procedures for import licensing and foreign exchange allocation.

The government grants a one-time 60 percent investment allowance tax deduction from the cost of industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa, and ten percent for those within these towns. This has the overall effect of reducing income taxes in the start-up phase of a project.

Exporters to the regional market covering 18 countries which are members of the Preferential Trade Area (PTA) Treaty receive advantages. Restrictive rules of origin prohibiting foreign firms from participating in the PTA market have been eliminated. Kenya is a member of the United Nations Conference on Trade and Development, a contracting party to the General Agreement on Tariffs and Trade and a signatory of the Lome Convention. Kenya has not signed the GATT/MTN agreements negotiated in the Tokyo Round.

A privately-owned export processing zone (EPZ) has been established in Nairobi while government-sponsored EPZ's are being constructed in both Nairobi and Mombasa. The government allows a limited number of bonded warehouses for inves-

tors producing for export. Such investors may import inputs duty free and make local purchases free of sales tax. The two-year old private sector EPZ has 13 operating firms with five others approved to commence operations. In June 1993, the government allowed providers of export-related services to participate in the EPZ.

There are 21 firms operating through the Manufacturing Under Bond Scheme. Although it was implemented in 1988, not many investors have been enthusiastic due to the bureaucracy involved in exporting. The government in conjunction with donors has set up two schemes which provide grant assistance to exporters seeking new markets.

Kenya has progressively reduced the corporate tax rate from 45 percent in the 1980's to the current 35.0 percent. Withholding tax (ranging from 12.5 to 30 percent) is imposed on royalties, interest, dividends, and management fees. Kenya's tax treaties normally follow the Organization for Economic Cooperation and Development model for the prevention of double taxation of income. There is no tax treaty with the United States.

7. Protection of U.S. Intellectual Property

Kenya is a member of the World Intellectual Property Organization and party to the Paris Convention for the Protection of Industrial Property, and the Universal Copyright, Geneva Phonogram and Brussels Satellite Conventions. Despite these agreements, pirated books, records, videos, and to a limited extent, computer software, find their way into Kenyan stores. Government inspection and existing Kenyan laws are inadequate. For example, the only manufacturer of records and cassettes in Kenya, Polygram Records Ltd., estimates the total cassette market at 2.5 million per year, of which 90 percent is pirated. Most videotapes in Kenya are also pirated.

In 1990, the Kenyan government implemented industrial property legislation and established an Industrial Property Office for granting industrial property rights, screening technology transfer agreements and licenses, and providing patenting information to the public. The office provides patents and utility models, and industrial design certificates. It also acts as a receiving office for international applications.

Although Kenyan laws regarding copyright are not extensive, the Copyright Act of 1989 provides for protection from audio copyright infringement. Video copyright infringement is not covered by the law, and is widespread. Trademark protection is available from the Kenyan government for a period of seven years from the date of application. The first applicant for trademark protection is entitled to registration.

8. Worker Rights

a. *The Right of Association.*—Except for central government civil servants and university academic staff, all workers are free to join unions of their choice. At least 33 unions in Kenya represent approximately 350,000 workers, or about 20 percent of Kenya's industrialized work force. Except for the 150,000 teachers who belong to the Kenya National Union of Teachers (KNUT) and four other smaller unions registered by the government, all other unions belong to one central body, the Central Organization of Trade Unions (COTU).

Until early 1993, Kenyan labor enjoyed harmonious relations with the central government. In April, however, this changed as workers experienced a large rise in the cost of living. Blaming the government, COTU's leaders called for an across-the-board 100 percent wage increase and dismissal of Kenyan Vice-President George Saitoti. The call culminated in a Labor Day ceremonies walkout by the Minister for Labor, arrest of the COTU secretary-general and his senior associates on Labor Day, a two-day national strike, which was observed in key sectors nationwide even after the Minister had declared it illegal, and finally, a government-sponsored coup within COTU.

Without waiting the normal seven-day period to verify the so-called elections, and disregarding a legal challenge by the existing COTU officers, the Registrar of Trade Unions immediately registered the new officers. These new officers were allowed to occupy COTU headquarters. The issues of both the coup's legality and the act of the registrar were still in court by early November 1993, but no international group recognized the new leadership.

In theory, the Trade Disputes Act permits workers to strike provided that 21 days have elapsed following the submission to the Minister of Labor of a written report detailing the nature of the dispute. In 1993, however, the Minister of Labor declared illegal several strikes, notably the KNUT strike averted at the last minute in July 1993, even after labor had given the required notice. The other key strikes were the national two-day strike after Labor Day, a one-day strike called by the Islamic Party

of Kenya in Mombasa, and an air traffic controllers' slowdown in November. The military, police, prison guards and members of the National Youth Service are precluded by law from striking. Kenyan labor legislation is silent on the issue of national strikes.

Internationally, COTU is affiliated with both the continent-wide Organization of African Trade Union Unity and the International Confederation of Free Trade Unions, although the new COTU leadership threatened to withdraw from the ICFTU over the cutoff in aid. COTU affiliates are free to establish linkages to international trade secretariats of their choice.

b. *The Right to Organize and Bargain Collectively.*—While not having the force of law, the 1962 Industrial Relations Charter gives workers the right to engage in legitimate trade union organizational activities. Both the Trade Disputes Act and the Charter authorize collective bargaining between unions and employers.

Wages and conditions of employment are established in the context of negotiations between unions and management. Government wage policy guidelines limit increases to 75 percent of the annual rate of inflation. In 1993, COTU called for removal of wage guidelines. Collective bargaining agreements must be registered with the Industrial Court. In 1993, about 1,875 agreements in total were on file with the Court, covering approximately 1 million union and non-union workers. Although the Export Promotion Zone Authority has decided that local labor laws, including the right to organize and bargain collectively, will apply in EPZ's, in practice it has granted many exemptions.

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, but there were no known instances of this practice in 1993. 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 Employment of Children.*—The Employment Act of 1976 proscribes the employment of children under age 16 in any industrial undertaking. The law does not apply to the agricultural sector, where about 70 percent of the labor force is employed, or the children serving as apprentices under the terms of the Industrial Training Act. Ministry of Labor officers are authorized to enforce the minimum age statute. Given the high levels of adult unemployment and under-employment, the employment of children in the formal wage sector in violation of the Employment Act is not a significant problem.

e. *Acceptable Conditions of Work.*—In 1993, minimum unskilled worker salaries averaged less than $20 per month. The normal week, by law, is limited to 52 hours, except for nighttime employees (60 hours) and agricultural workers (excluded). Non-agricultural workers receive one rest day in a week minimum, 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 can not exceed 144 hours. The Ministry of Labor is tasked with enforcing these regulations, but reported violations are few. The Factories Act of 1951, which sets forth detailed health and safety standards, was amended in 1990 to encompass the agriculture, service and government sectors. Inspectors in 1992–3 conducted 16,132 inspections due to an ILO-funded project. This altered the previous practice of responding only to worker complaints. "Whistle blowers" are not protected, however. Kenya's worker compensation regulations do not yet comply with provisions of ILO Convention No.17.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		22
Total Manufacturing		29
Food & Kindred Products	4	
Chemicals and Allied Products	12	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		1
Banking		(1)
Finance and Insurance		(1)
Services		9
Other Industries		0
TOTAL ALL INDUSTRIES		88

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

NIGERIA

Key Economic Indicators

[Billions of naira unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1984 factor cost)	94.6	98.4	N/A
Real GDP Growth (pct.)	4.5	4.2	N/A
GDP (at current prices)	324.8	443.4	N/A
By Sector (1984 factor cost):			
Agriculture	36.8	37.9	N/A
Energy and Water	13.1	13.3	N/A
Manufacturing	7.9	8.5	N/A
Construction	1.8	1.9	N/A
Rents	2.4	2.5	N/A
Financial Services	8.2	8.5	N/A
2Other Services	16.5	17.0	N/A
Government, Health and Education	7.9	8.9	N/A
Real Per Capita GDP	272	240	N/A
Labor force (millions)	30.5	32.5	34.5
Unemployment Rate (pct.)[2]	2.9	4.0	4.0
Money and Prices:			
Money supply (M2) (Naira billion)	86.2	135.4	199.8
Base Interest Rate	20.1	25.7	38.2
Personal Savings Rate	13.9	15.5	19.1
Consumer Price Index (FOS)[3]	330.9	478.4	728.3
Exchange Rate (Naira per $):.			
Official (annual average)	9.9	17.6	22.4
Parallel	13.5	20.5	34.6
Balance of Payments and Trade (billion U.S. dollars unless noted):			
Total Exports FOB[4]	12.3	11.9	N/A
Exports to the U.S	5.4	5.1	6.2
Total Imports CIF[4]	7.8	8.3	N/A
Imports from the U.S	0.8	1.1	0.9
Aid from U.S. ($ million)	11.2	16.5	22.8
External Public Debt	33.7	27.6	32.0
Debt Service Payments	4.2	2.4	2.4
Gold and Foreign Exchange Reserves (N billion)[5]	44.2	13.9	17.9

Key Economic Indicators—Continued

[Billions of naira unless otherwise noted]

	1991	1992	1993[1]
Trade Balance[4]	4.5	3.7	N/A
Balance with U.S	4.6	4.1	5.3

N/A—Not available.

[1] Figures projected from data available in October 1993.

[2] According to Federal Office of Statistics data. Embassy estimates unemployment at 30 to 40 percent.

[3] Base year 1985, Federal Office of Statistics.

[4] Merchandise only, not including services and income.

[5] End of year figures.

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

1. General Policy Framework

Though blessed with considerable human and material resources, Nigeria is one of the poorest countries in the world, and ended up 21st-lowest in GNP per capita according to a 1993 World Bank ranking. Its population of 88 million (according to the 1992 census) is the largest in Africa. Nigeria's crucial petroleum sector provides the government with over 95 percent of all foreign exchange earnings and 83 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.

After a period of relative fiscal austerity in the late 1980's, the Nigerian Government has run budget deficits ranging from 9.8 to 12.4 percent of GDP since 1990. Proposals to reduce the deficit include reducing large government fuel price subsidies (the official price of gasoline was about seven U.S. cents per gallon in October 1993), shelving a number of government projects which are of doubtful economic value, and reducing leakages from government income due to corruption. The government announced plans to institute a modified value-added tax (MVAT) in October 1993. If it can be implemented as planned, the MVAT would impose a flat 5 percent tax on a wide range of goods and services, and would serve as a major new source of government revenue.

Over the last several years, monetary policy has been driven by the need to accommodate the government's budget deficit and a desire to reduce the inflationary impact of the budget deficit on the economy. Deficits at the federal level are financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 83 percent of the government's domestic debt at the end of 1992. Since the Central Bank monetizes much of the deficit, budgetary shortfalls have a direct impact on the money supply and on price levels, which have risen rapidly in recent years.

In an effort to mitigate the inflationary effects of government deficits, the Central Bank has since 1990 forced the banking sector to finance part of the deficit through large purchases of government securities. In July 1993, the Central Bank also began auctioning treasury certificates to the banking sector at competitive rates in an attempt to finance more of the deficit through voluntary purchases from the private sector. While these measures have succeeded in limiting the budget deficit's inflationary effects, they have also served to "crowd out" long-term private sector borrowing by driving up interest rates.

2. Exchange Rate Policies

The Central Bank of Nigeria administers an official Foreign Exchange Market (FEM) in which it sells hard currency to licensed banks at a set exchange rate. The FEM exchange rate for the naira is pegged to the U.S. dollar, and varies with the dollar against other currencies. Though the official naira/dollar exchange rate is periodically adjusted, it has been held at 21.99 naira per $1.00 since April 1993.

Outside the official foreign exchange market, foreign exchange can legally be bought and sold at the "autonomous" or free market rate at bureaux de change. Besides 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, 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.

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—industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a non-renewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area.

Nigeria 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 preshipment 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 1992, total external debt (not including arrears) had reached $27.6 billion, with 59 percent of the debt ($16.4 million) owed to the creditor governments of the Paris Club, and the rest spread among London Club banks ($2.1 billion), commercial creditors ($3.2 billion), multilateral agencies ($4.5 billion), and others ($2.3 billion).

In January 1992, in an effort to reduce its external stock of debt, 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. The menu included debt buy-backs (at 40 cents on the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion, but the accumulation of arrears on other debt since that time has brought external debt back to previous levels. Including arrears, official foreign obligations exceed $32 billion as of October 1993.

During the period 1986 to early 1992, on the basis of a comprehensive Structural Adjustment Program (SAP), Nigeria reached three standby agreements with the IMF. The most recent of these was approved in January 1991 and expired in April 1992. Discussions with the IMF since then have not resulted in a new agreement.

Nigeria's most recent rescheduling agreement with the Paris Club expired at the same time as its standby agreement and debt repayment obligations have grown significantly. Nigeria's record on debt repayment, meanwhile, has deteriorated. In 1992, Nigeria made debt service payments of $2.4 billion, against interest and principal payment obligations of $5 billion. Faced with similar obligations in 1993, budgeted external debt service payments for 1993 are only $2.0 billion, meaning Nigeria will accumulate arrears of approximately $3 billion during the year.

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 1993, 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 Nigerian agriculture continues to wrestle with other adverse factors such as bad weather, disease, lack of credit, poor distribution of such inputs as fertilizer, fungicides, and pesticides, and marketing constraints. In April 1993, the government issued a decree lifting the wheat ban, and U.S. imports of the grain are on the rise. Publication of the lifting decree in the Official Gazette, which will make the lifting of the ban permanent, is promised to occur before the end of 1993.

In some cases, Nigeria uses 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 $900,000 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 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, and foreign companies incorporated in Nigeria receive national treatment. Approximately five percent of all government procurement contracts are awarded to U.S. companies. Nigeria is not a signatory to the General Agreement on Tariffs and Trade (GATT) Government Procurement Code.

6. Export Subsidy Policies

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

The NEPC also administers the Export Expansion Program, a fund which provides grants to exporters of manufactured and semi manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to five percent of total export value, they appear to be subsidies as designated by GATT, and may violate GATT rules.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention (UCC) and the Bern Convention. In early 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO) 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 WIPO standards and U.S. copyright law, currently makes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner a criminal offense. Progress on enforcing the 1988 law has been slow. The expense and length of time necessary to pursue a copyright infringement case to its conclusion are detrimental to the prosecution of such cases.

In the past, few companies have bothered to secure trademark or patent protection in Nigeria because it is generally considered ineffective. Losses from poor intellectual property rights protection are substantial, although the exact cost is difficult to estimate. The majority of the sound recordings sold in Nigeria is pirated 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 $39 million in 1988 due to copyright piracy, excluding losses from computer software.

8. Worker Rights

a. *The 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 non-unionized. 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.

b. *The Right to Organize and Bargain Collectively.*—Nigerian labor law grants 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 that it feels contravene its essential political or economic programs. As a result, unions often take their demands directly to the government rather than 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 for 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. Despite this, 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		159
Total Manufacturing		63
Food & Kindred Products	(1)	
Chemicals and Allied Products	17	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	5	
Other Manufacturing	(1)	
Wholesale Trade		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	(1)
Finance and Insurance	(1)
Services	4
Other Industries	0
TOTAL ALL INDUSTRIES	274

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

SOUTH AFRICA

Key Economic Indicators

[Billions of rand unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1985 prices) [2]	119.8	117.0	116.9
Real GDP Growth (pct.)	−0.4	−2.1	0.0
Real GDP (at current prices) [2]	267.9	295.6	322.1
By Sector:			
Agriculture	13.0	11.6	15.6
Mining	27.0	27.0	30.5
Energy and Water	11.7	12.7	13.6
Manufacturing	66.6	73.7	78.9
Construction	8.2	8.8	9.2
Wholesale/retail trade	36.2	40.5	43.2
Financial services	39.7	46.0	51.2
Other services	6.4	7.3	7.8
General government	40.0	46.6	51.2
Net Exports of Goods and Services	5.9	3.6	2.9
Real Per Capita GDP (1985 rand)	3,498	3,349	3,200
Labor Force (millions) [3]	11.6	12.0	12.3
Unemployment Rate (pct.) [3]	39.0	40.0	46.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.1	10.9	1.81
Prime Overdraft Rate (pct.) [4]	20.25	17.25	16.25
Personal Savings to Disposable Income (pct.)	1.6	2.6	2.2
Producer Price Index (year-end pct. change)	11.4	8.5	7.0
CPI (year-end pct. change)	15.3	14.0	8.0
Exchange Rate ($ per rand): [5]			
Commercial Rand	.36	.35	.31
Financial Rand	.32	.28	.22
Balance of Payments and Trade (billions of U.S. dollars):			
Total Exports (FOB)	23.7	23.6	N/A
Exports to U.S	1.7	1.7	1.7
Total Imports (FOB)	17.4	18.2	N/A
Imports from U.S	2.1	2.4	2.4
Aid from U.S. ($ million USFY basis)	50.0	80.0	80.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	6.8	6.5	N/A
Debt Service (paid)	1.7	1.6	0.8

Key Economic Indicators—Continued

[Billions of rand unless otherwise noted]

	1991	1992	1993[1]
Gold and FOREX Reserves (gross)	9.8	11.2	9.2
Current Account Balance	6.2	3.9	2.9
Trade Balance with U.S.	−0.4	−0.7	−0.7

N/A—Not available.

[1] 1993 Figures are all estimates based on monthly data as of June 1993.
[2] GDP at factor cost.
[3] 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.
[4] As of Dec. 31.
[5] Average annual rate.

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 became more severe in 1992, as the nation battled 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 during this period could 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 persisted at double digit levels (since the early 1970s) until 1993 when it dropped into the single digits;
—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;
—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.

In 1993, GDP registered positive growth for the first time in four years with 1.4 and 5 percent growth respectively in the first and second quarters. Despite the surprising increase in the second quarter, which was due mainly to the recovery in the agriculture sector, the rest of the economy is still bumping along the bottom. It is predicted that the South African economy will register zero growth over the full year of 1993.

The South African government has taken steps to address some of the structural problems within the economy. 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 were lifted in 1991. Black trade unions have been recognized. Spending on socio-economic 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, which has remained in the 15 percent range primarily because of higher food prices due to the drought.

Traditionally, South Africa has adopted conservative fiscal policies. 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 ended in a deficit of R31.1 billion, approximately 11 percent of GDP, as spending outpaced revenues. Estimates for the deficit before borrowing in fiscal 1993/94 are significantly lower, reaching R7.5 billion, or roughly 8.6 percent of GDP. Nevertheless, pressure is 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. However, the proposal attracted much political opposition, and further large-scale privatization has been put on hold until a government of national unity is in place.

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. 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.

The instability in the international foreign exchange markets and South Africa's weak overall balance of payments caused the nominal effective exchange rate of the commercial rand to depreciate by 4.8 percent in the second quarter of 1993 and by a further 0.3 percent by the end of August 1993. (The real effective exchange rate of the rand declined by 2.2 percent in the second quarter of 1993). In this period the rand depreciated against most of the currencies of South Africa's main trading partner countries, particularly the Japanese yen. However, it also depreciated fairly sharply against the U.S. dollar and British pound over this period. Owing largely to the continued interest in South African gold mining shares and reasonably favorable progress in the constitutional negotiating process, the financial rand remained relatively stable during the first seven months of 1993.

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. In April of 1993, the VAT rate increased to 14 percent in an attempt to cover 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 1992, foreign debt amounted to $17.3 billion, with the private sector accounting for about $10.8 billion of this total. The ratio of total foreign debt to GDP in 1992 was 15.1 percent, and the ratio of interest payments to total export earnings was 6.7 percent. Debt repayment obligations in 1993 are estimated to be R4 billion to R5 billion, although increasing access to international capital markets should allow South Africa to refinance at least half of that debt.

In 1985, faced with large capital outflows, intense pressure against the rand, and a cutoff of its access to foreign capital, the South African government declared a unilateral standstill on amortization payments. Interest payments were continued, and amortization payments due to international organizations and foreign governments were not affected, obviating the need for a Paris Club rescheduling. The debt "standstill" was regularized in 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. In September of 1993, the government, with the consensus of South Africa's major political parties, finalized a debt agreement with major western banks on $5 billion worth of mostly private debt caught inside the "standstill net."

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter organization on a regular basis. With the establishment of the Transitional Executive Council (TEC), South Africa's eligibility for Bank loans is now under review. 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.

After some twenty-seven years of relative economic isolation, South Africa appears set to become another IMF borrower country. Approval of the SAG's application to the IMF for an estimated $850 million drought-related loan appears imminent. Gaining access to the drought facility will enable the government to replenish its foreign exchange reserves and normalize relations with the international financial community.

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, are the most significant barriers for U.S. exports. The Department of Trade and Industry is attempting to simplify its system of tariffs, but some tariffs have been increased in the process, including hikes of up to 180 percent on certain steel products. Local content requirements also apply in certain industries, most notably in motor vehicle manufacturing.

The lifting of Title III sanctions in the Comprehensive Anti-apartheid Act (CAAA) in July 1991 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. All remaining portions of the CAAA were repealed in November 1993. Regulations still prohibit U.S. firms from exporting to South African police or military organizations. Arms exports to South Africa are also prohibited.

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.

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 mission. 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 under a uniform, five-year program 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 Bern 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 in 1992 provides further protection for computer software.

Nevertheless, software piracy occurs frequently in South Africa. The Business Software Alliance (BSA), a worldwide body with active anti-piracy programs in over 50 countries, estimates that as much as 60 to 70 percent of South Africa's software is pirated. Its investigations reveal that for every one legal software program in use, between three and four are illegal. In October 1993, the BSA brought the first legal action against software pirates under the terms of the new copyright legislation. The U.S. motion picture industry reports that piracy, including unauthorized public performance, video piracy, and "parallel imports" pose a problem for doing business in South Africa. U.S. pharmaceutical firms operating in South Africa express similar concerns regarding "parallel imports."

8. Worker Rights

a. *The 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, 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 restriction 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. *The Right to Organize and Bargain Collectively.*—The South African government does not interfere with union organizing in the private sector and has generally not intervened in the collective bargaining process. Collective bargaining is freely practiced throughout the country with the major exception of public servants, farm workers and domestic servants who are not covered by the Labor Relations Act. The government had pledged in a 1990 agreement to extend basic trade union rights to farm, domestic and public sector workers, but has yet to take action on the issue. Increased efforts to unionize public workers resulted in illegal public sector strikes accounting for 14 percent of all 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, Dutch-Roman common law does not permit it.

d. *Minimum Age for 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 provi-

sions of the act. The Occupational Safety Act sets minimum standards for work conditions and employment, and those standards are enforced.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		501
Food & Kindred Products	(1)	
Chemicals and Allied Products	148	
Metals, Primary & Fabricated	45	
Machinery, except Electrical	92	
Electric & Electronic Equipment	(1)	
Transportation Equipment	19	
Other Manufacturing	149	
Wholesale Trade		67
Banking		0
Finance and Insurance		(1)
Services		5
Other Industries		76
TOTAL ALL INDUSTRIES		871

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

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

ZAIRE

Key Economic Indicators

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP	N/A	N/A	N/A
Real GDP Growth (percent)	−7.2	−10.6	−16.4
GDP (at current prices)	N/A	N/A	N/A
GDP Growth by Sector (percent):			
Agriculture	3	2	−4
Mining	−22	−32	−22
Energy and Water	−5	5	−28
Manufacturing	−21	−54	−22
Construction	−32	−22	−36
Retail Trade	−6	−9	N/A
Other Services	−6	−13	N/A
GDP Per Capita	N/A	N/A	N/A
Labor Force	N/A	N/A	N/A
Unemployment (percent)	N/A	N/A	N/A
Money and Prices:			
Money Supply (trillions of zaires)	18	770	4,518
Interest Rate (rediscount in pct.)	55	55	95
Investment rate (pct. of GDP)	4.5	N/A	N/A
Consumer Price Index (pct. change)	3,750	3,030	1,900
Exchange rate (end-of-year, 000's of zaires/$):			
Official	63	1,900	13,500
Parallel	66	2,200	120,000

Key Economic Indicators—Continued

	1991	1992	1993[1]
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports FOB	1,600	1,370	N/A
Exports to U.S	N/A	235	N/A
Total Imports CIF	860	731	N/A
Imports from U.S	N/A	36	N/A
Aid from U.S.[2]	11.9	0.7	7.0
Aid from Other Countries	14.9	N/A	N/A
External Public Debt	9,606	9,473	9,469
Actual Debt Payments	205	79	11
Gold and FOREX Reserves	N/A	N/A	N/A
Merchandise Trade Balance	N/A	N/A	N/A
Current Account Balance	N/A	N/A	N/A

N/A—Not available.

[1] Estimated, As of December 1, 1993.

[2] Fiscal year figures.

Source: Due to the breakdown of government administration in Zaire over the past two years, few economic statistics are published by Zairian authorities, and available statistics are highly unreliable.

1. General Policy Framework

Despite Zaire's wealth of natural resources and a promising early start towards economic development, the country's economy has been in a free-fall since September 1991, when mutinous military troops looted all major urban centers. As a result of the accompanying widespread uncertainty and civil disorder, most businesses that are unable to leave the country have adopted a defensive stance, minimizing their exposure in Zaire and waiting for an upturn in the economy.

As of November, 1993, the regime of President Mobutu was highly corrupt, heavily indebted, and its economic policies were generally ineffective. Limited government income came from import and export taxes, with income from mineral, petroleum and coffee exports providing most foreign exchange revenue. A large government deficit, primarily to pay salaries for the military and civil servants, was financed by printing currency. Hyperinflation, rapid devaluation, and abandonment of the formal economy were the result.

Although Zaire possesses large amounts of unused agricultural land, its urban population is dependent on imported food due to the lack of a transportation network. Foreign exchange for food and other imports is generated primarily through export of diamonds, crude petroleum, and coffee. Although small amounts of copper, zinc, cobalt and other metals are still exported from the country's mineral-rich Shaba Province, a collapse in production facilities has led to a similar collapse in mineral revenue.

Zaire's economy is mixed. The state dominates the mining and utility sectors, but private industry is dominant elsewhere (increasingly so as the economy has deteriorated). Except for petroleum products, utilities and parts of the transportation sector, market-determined prices are the norm, and many parastatal enterprises compete with private ones.

2. Exchange Rate Policies

The availability of foreign exchange depends chiefly on revenues from Zaire's major exports: minerals and coffee. Although the government sets an official exchange rate and requires foreign exchange transactions to be done at that rate, in practice nearly all commercial transactions are done at a freely-floating and widely-quoted parallel rate. Government attempts to restrict this parallel market have failed. Some parallel transactions are brokered by commercial banks, and others are handled by wealthy individuals in the informal economy.

Because hyperinflation and accompanying devaluation erodes the buying power of local currency so quickly, businesses generally convert the currency into foreign exchange or commodities as quickly as possible. To facilitate foreign exchange conversion, importers and exporters establish informal exchange arrangements with each other, sometimes brokered by commercial banks. Although hard-currency denominated accounts are available at commercial banks, most businesses avoid these accounts out of fear they will be frozen or confiscated by the government. During periods of political and economic unrest, speculation and the parallel foreign exchange market's relative thinness cause large swings in the value of local currency.

3. Structural Policies

Lack of effective enforcement mechanisms and the questionable legitimacy of ruling politicians have made pre-existing structural policies obsolete and have encouraged widespread disregard of newly-declared policies.

Government control remains strict, however, in the distribution of petroleum products. Prices are set by the government, and when they fall far enough below the market level, deliveries are cut back until a price which permits costs to be covered is renegotiated.

During the fall of 1993, the government attempted to impose price controls on all consumer products, enforcing the controls with intrusive inspection teams. Although the price controls failed to stop hyperinflation, they succeeded in alienating a large part of the business community.

4. Debt Management Policies

At the end of 1993, Zaire's external debt exceeded $10 billion. However, the Zairian government's payments on this debt were insignificant. Non-payment led both the IMF and the World Bank to declare Zaire ineligible for financial support from those organizations and jeopardized Zaire's status as a member in good standing. At late-1993 export levels, Zaire's debt-service ratio would have exceeded 100 percent, even with re-scheduling, but the country's lending partners were unlikely to cancel or reschedule its debts without significant changes in the country's political landscape.

5. Significant Barriers to U.S. Exports

U.S. traders and investors face generalized impediments that effect all economic activity in Zaire. The country has no reliable national network of telephonic communications or mail. Although the Zaire river serves as a major transportation artery, the vast majority of pre-existing roads, bridges, and railroads have deteriorated to the point of unusability. Several private air transportation companies operate, but at high cost.

Corruption at all levels of government makes the conduct of business difficult, especially for those operating under the Foreign Corrupt Practices Act. Expatriates are subject to selective application of the law, as well as numerous, imprecise, and changing residency regulations. Insurance is usually unavailable or priced at war-risk levels. As of late 1993, the Birindwa-led government was not recognized as legitimate by the United States.

6. Export Subsidies

There are no export subsidies in Zaire, nor any government programs to assist the export sector.

7. Protection of U.S. Intellectual Property

In theory, the Government of Zaire acknowledges the value of intellectual property. The country is a party to the Bern and Paris conventions and is a member of the World Intellectual Property Organization. The government's Department of National Economy and Industry protects privileged technology and production information, as well as trademarks. International franchises operate comfortably in Zaire within the protection granted by the state. A national society of editors, composers, and authors oversees copyright protection due artists under the law, but it is a private organization and not an official agency. There is very limited production of books and sound recordings in Zaire, so the potential for pirating is small at the moment. The U.S. Embassy reports no knowledge of patent infringement in the country.

In the event of future infringement, the legal and administrative system is ill-equipped to enforce intellectual property regulations. The Government of Zaire is also unable to prevent most pirated goods from crossing into the country and being sold. Cartier watches, U.S. brand name jeans, and designer label clothes of questionable origin are all available in Kinshasa.

8. Worker Rights

a. *The Right of Association.*—The constitution provides the right to form and join trade unions to all workers, except soldiers and employees of the judicial system. Approximately 80 labor-related organizations are legally registered, although many exist mainly on paper. Although workers have the right to strike legally, the process is lengthy, and laws are often disregarded, so few legal strikes occur. Instead, workers stage technically illegal strikes, especially in the public sector. Few strikes are suppressed forcibly.

b. *The Right to Organize and Bargain Collectively.*—Legislation provides for the right to organize and bargain collectively. Although many organizations exist, they have little effectiveness in Zaire's conditions of massive unemployment and poverty.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution and labor code forbid forced labor. The U.S. Embassy knows of no instances of forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—The legislated minimum age for employment is 18, although those between the ages of 14 and 18 can legally engage in "light work" if a parent or guardian consents. Many children under 14 work in the informal sector, especially in subsistence agriculture, and neither the government nor labor unions attempt to prosecute such instances. Larger enterprises do not commonly exploit child labor.

e. *Acceptable Conditions of Work.*—The majority of the population is engaged in subsistence agriculture and small-scale commerce outside the formal sector. In recent years income in the modern economy has not kept up with inflation, and the minimum daily wage to which workers are entitled does not provide a decent living for them and their families. Public sector remuneration remains low, and workers are often driven to corruption or to take second jobs in the private sector.

f. *Rights in Sectors With U.S. Investment.*—There are U.S. investments employing Zairian labor in the petroleum, agribusiness and service sectors. These enterprises are subject to the labor laws that cover all Zairian workers. There is no forced labor or child labor at U.S. companies in Zaire. Although health benefits and salaries are low at some companies, they generally compare favorably with local practice. Rights do not differ significantly from sector to sector.

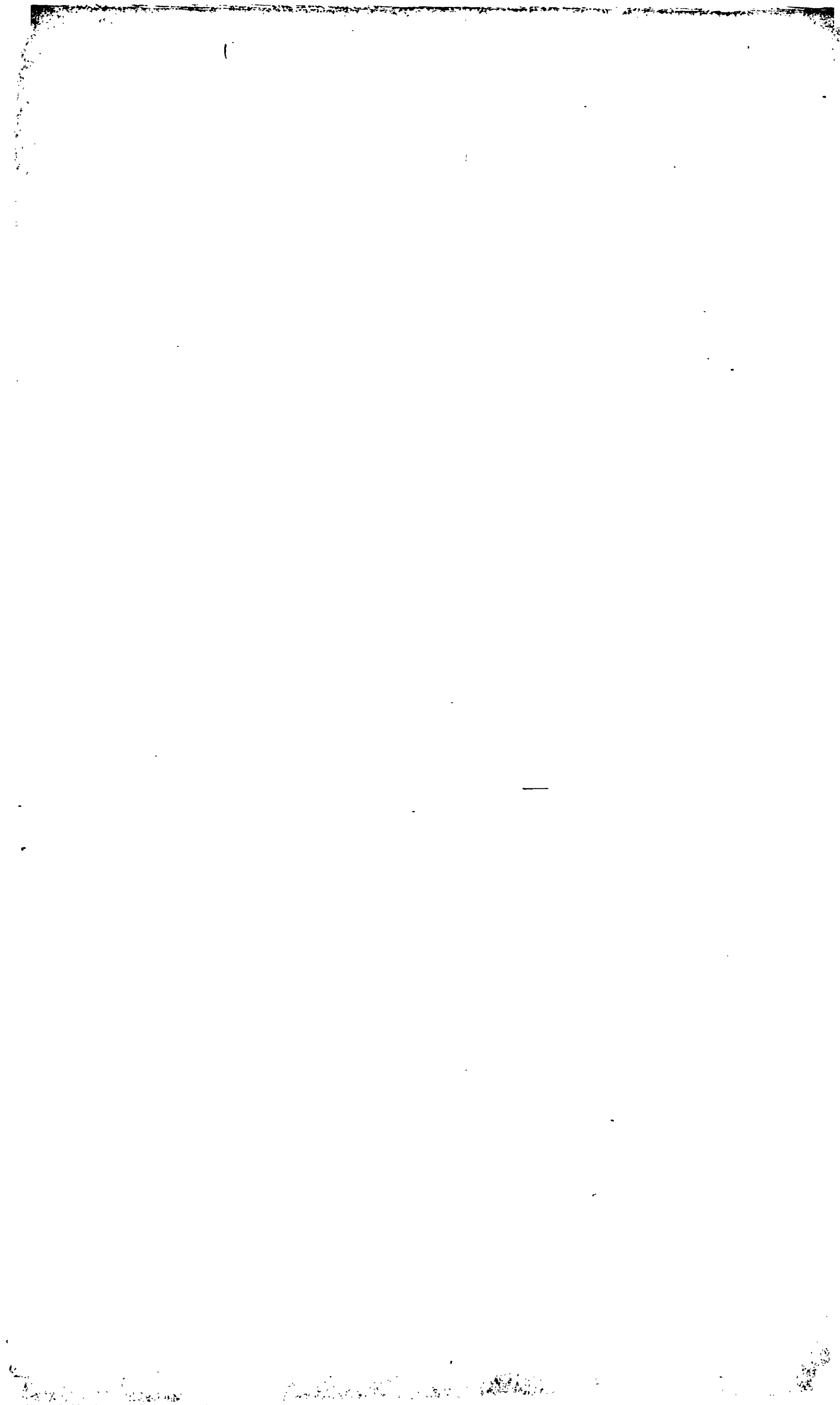
Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		13
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
Banking		5
Finance and Insurance		[1]
Services		[1]
Other Industries		0
TOTAL ALL INDUSTRIES		28

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

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



EAST ASIA AND THE PACIFIC

AUSTRALIA

Key Economic Indicators

[Billions of Australian dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1989–90 prices)[2]	367.2	373.8	383.9
Real GDP Growth (percent)	−0.9	1.8	2.7
GDP (at current prices)	379.2	392.2	403.6
By sector:			
Agriculture	11.0	15.7	16.0
Energy and Water	12.2	12.1	12.4
Manufacturing	51.4	52.3	54.5
Construction	29.3	25.2	25.9
Ownership of Dwellings	32.1	36.3	37.2
Finance, Property and Business Services	42.4	44.9	45.0
Other Services	58.3	60.0	60.7
General Government	7.0	8.7	8.8
Net Exports of Goods and Services	2.5	−0.9	−3.5
Real Per Capita GDP (A$ 000's)	21.3	21.4	21.6
Labor Force (000's)	8,536	8,623	8,645
Unemployment Rate (percent)	9.7	10.8	10.9
Money and Prices (annual percentage growth):			
Money Supply (MI) (year end)	11.3	20.6	11.8
Base Interest Rate (year end)	−28.6	−30.6	−16.8
Personal Savings Ratio	−14.8	6.2	−31.9
Retail Price Index	1.7	2.1	3.2
Consumer Price Index	1.5	1.0	2.7
Exchange rate (US$/A$)	0.779	0.740	0.685
—Percentage Change	−8.5	−5.0	−7.4
Balance of Payments and Trade:			
Total Exports FOB[3]	53.8	58.4	61.0
Exports to U.S	5.4	5.1	4.7
Total Imports CIF	49.7	55.5	61.9
Imports from U.S	11.9	12.4	13.1
Aid from U.S	0	0	0
Aid from Other Countries	0	0	0
Gross External Public Debt	80.0	86.8	89.0
Debt Service Payments (paid)	15.9	13.8	11.8
Gold and FOREX Reserves	24.6	19.1	20.6
Current Account Balance	−12.8	−14.0	−16.0
Trade Balance with U.S	−6.5	−7.3	−8.4

[1] 1993 Figures are all estimates based on available monthly and quarterly data in September 1993.
[2] GDP at factor cost for base year indicated (1985 data superseded).
[3] Trade data recorded on a foreign trade basis—as opposed to those recorded on a balance of payments basis.

1. General Policy Framework

Australia's gross domestic product (GDP) in 1993 was estimated to be 403.3 billion Australian dollars. Real GDP is estimated to have, grown by 2.7 percent, a substantial improvement from 1992's 1.8 percent. Nevertheless, the impact of the recession which began during the third quarter of 1989 and ended in 1991 continued to be felt. Unemployment hovered around the 11-percent mark during 1993.

U.S. economic interests in Australia are substantial, including direct investment worth approximately US$ 5.9 billion and a bilateral trade surplus of approximately US$ 5 billion.

Although Australia is the size of the contiguous United States, its domestic market is limited by a small population (17.7 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, is a leading exporter of coal, minerals and metals, particularly iron ore, gold, alumina, and aluminum. Export earnings are not well diversified. In 1992, primary and agricultural products accounted for 62 percent of the total value of goods and services exports.

To increase Australia's international competitiveness, the government has continued its longstanding effort 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 level (water treatment, transportation, electricity, banks) is being pursued. The 1993 highlight was the sale of 25 percent of Qantas Airlines to British Airways, and the announcement of the intention to sell off the remainder of the carrier to the public in 1994. 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 civil offsets in December 1992, some state and territory governments continue to apply preferences in their contracts.

Given the slow pace of recovery from the recession, and very low (approximately 2 percent) inflation, the Australian government increased both fiscal and monetary stimulus in 1993. Official government interest rates were lowered from a high of 18 percent in early 1990 to 4.5 percent in mid-1993. The 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 above money supply control system, foreign exchange flows and government deficits and credits have only limited impact on the money supply.

For the second consecutive year, the federal government ran a budget deficit in Australian fiscal year (AFY) 1992/93. The deficit, 14.5 billion Australian dollars (A$), equalled 3.6 percent of GDP, up from A$9.3 billion (or 2.4 percent of GDP) the year before. The deficit is projected to increase to 3.8 percent of GDP by the end of the current Australian fiscal year (i.e., June 30, 1994). Public sector borrowing covered the deficit. Borrowing took the form of treasury notes (A$1.7 billion), treasury bonds (A$14.2 billion), and a drawdown of A$233 million in cash. Foreign currency debt fell by A$743 million. In AFY 1993/94 new debt issues totaling at least A$15 billion will have to be made to cover the projected budget deficit.

The challenge the government will face in 1994 is to return the economy to a moderately high growth path without causing a massive increase in the current account deficit. Most economists believe that GDP must grow by at least four percent per year in order to bring unemployment down substantially. The problem is that the importation of capital goods needed to fuel that level of growth, combined with a recovery-inspired increase in consumer goods imports, could well push the current account deficit above its already high level (A$16 billion for 1993), and cause additional depreciation of the Australian dollar.

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 of this requirement 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 the 1980s that includes an accelerated timetable for the reduction of protection and microeconomic, reform. 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 three principal premises: protection must be reduced; the pace of reform needs to be accelerated; and, industry needs to be less pre-occupied about receiving protection.

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 five percent. 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. 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.

4. Debt Management Policies

Australia's gross external public debt now exceeds A$91.8 billion, or 22.9 percent, of GDP. That figure represents 44 percent of Australia's gross external debt; the remaining 56 percent is owed by the private sector. Gross interest payments on public debt totaled A$5.3 billion in AFY 1992/93, representing 7.1 percent of exports of goods and services. Private sector debt service totaled A$6.1 billion, an amount equal to another 8.1 percent of export earnings. On an overall basis, therefore, Australia's debt service ratio was 15.2 percent, down substantially from AFY 1991/2's 19.5 percent. Falling international interest rates caused the drop in the debt service ratio. Standard and Poor's general credit rating for Australia remained AA during 1993.

5. Significant Barriers to U.S. Exports

The U.S. enjoyed an estimated A$8.4 billion trade surplus with Australia in 1993. There are no longer any significant Australian barriers to U.S. exports. The U.S. is the largest source of imports in Australia, with a 22.3 percent share of Australia's import market and a substantial share of the imported products purchased by the government. The following Australian trade policies and practices affect U.S. exports to some degree, but none can be considered significant.

Licensing: Import licenses are now only required for certain vehicles, textiles, clothing, and footwear. Licensing applied to these 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 Australian 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 Authority (ABA), which controls broadcast licensing, liberalized rules governing local content in television advertising effective January 1, 1992. Nevertheless, under current rules only 20 percent of the time used for paid advertisements can be filled with messages produced by non-Australians. Statistics covering calendar year 1992 indicate that approximately eight percent of television advertisements broadcast in that year were produced abroad. More U.S.-produced advertisements should be broadcast in 1993–4.

On January 1, 1990, local content regulations regarding commercial television programming entered into force. Beginning with 35 percent for 1990, the local content requirement increased by five percent per year until January 1, 1993. From that date forward, 50 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian programs. Programs are evaluated on a complex point system based on relevancy to Australia (setting, accent, etc., ranging from no Australian content to a 100-percent

Australian production). Trade sources indicate that the content regulation does not have a substantial impact on the amount of U.S.-sourced programming sold to Australian broadcasters, because the mix of programming is driven by the market's preference for Australian themes. The latest available statistics bear that out. According to the ABA, in the two years before the local content requirement took effect, an average of 50 percent of commercial stations broadcasting time was devoted to imported programming. During the 1992 broadcasting year that figure increased to 54 percent. Nevertheless, the ABA's local content requirements have been opposed actively by the Embassy and U.S. trade officials.

State governments restrict development of private hospitals. The states' motives are to limit public health expenditures and to balance public/private services to prevent saturation and over-use, both 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. 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 the 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 kilograms 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 32.5 percent, will drop to 30 percent on January 1, 1994 and will be phased down to 15 percent on January 1, 2000. Under automotive arrangements announced in March 1991, automobile manufacturers may import duty free dutiable imported components up to a maximum value equal to 15 percent of their automobile production in a given year. In addition, under terms of the export facilitation scheme, local manufacturers of vehicles and automotive components can receive an offset on the tariff on finished vehicles they import for sale in Australia in an amount equal to the value of their exports of vehicles/components times the duty rate on the vehicles imported. 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.

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 15 percent or more of a company or business with total assets below A$50 million, or take over an off-shore company with Australian subsidiaries or assets valued below A$50 million will no longer be examined. 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.

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

Government Procurement: 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 is complete.

The federal government abandoned the civil offset program in 1992. Three state governments still require offsets in some cases. Nonetheless, in dismantling the offset program, the government removed a major trade irritant between the U.S. and Australia.

Since 1991, foreign information technology companies with annual sales to the Australian government of A$10–40 million have been required to enter into fixed term arrangements (FTA's), and those with sales greater than A$40 million into partnerships for development (PFD's). Under FTA's, a foreign company or its subsidiary commits to undertake local industrial development activities worth 15 percent of its projected amount of government sales over a four-year period. Under a PFD, the headquarters of the foreign firm agrees to invest five percent of its annual local turnover on R and D in Australia; export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software companies); and achieve 70 percent local content across all exports within the seven year life of the PFD. In 1992 this scheme was extended into the telecommunications customer premises equipment (CPE) sector, replacing, in large measure, the requirement that suppliers of cellular mobile telephones, pabx's, small business systems, and first telephones have Industrial Development Arrangements (IDA's) in place before obtaining licenses to connect their equipment to the public switched network. The IDA program now is scheduled to be eliminated in June, 1996.

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 southeast Asia." The net effect of the panel will be to hinder non-member participation in government systems integration contracts. Technically, panel membership will not be closed. However, access will remain restricted and a new applicant (domestic or foreign) would have to demonstrate 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.

In December, 1992 the Australian government announced an initiative requiring, beginning in AFY 1993/4, Government Business Enterprises (GBE's—central government-owned companies such as the Australian and Overseas Telecommunications Corporation and the Civil Aviation Authority) to, inter alia, give "local companies the maximum opportunity to compete for government business consistent with the commercial objectives of GBE's and the need to obtain value for money." The new policy stops well short of directing GBE's to give preference to local suppliers. However, it does bias them towards buying locally and could, therefore, become a significant element determining their procurement choices.

At the end of 1993, Industry Minister Griffiths made several public calls for increased use of government procurement as a tool for facilitating the development of local industry. His industry policy statement, expected in early 1994, is likely to contain a specific proposal along those lines.

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, but the decision of the U.S. Congress to increased U.S. local content requirements could lead to calls for a delay. 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 ten 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

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

The Australian government provides export-market-development reimbursement grants of up to A$250,000 for most qualifying domestic firms exporting goods and services. Other mechanisms provide for drawbacks of tariffs, sales, and excise taxes paid on exported finished products or their components. In some cases, government grants and low-cost financing are provided to exporters for bonding, training, research, insurance, shipping costs, fees, market advice, and to meet other costs. "Bounties" (in effect production subsidies) are paid to manufacturers of some textile and yarn products, bed sheets, new ships, some machine tools, and computer and molding equipment to help them export or compete with cheaper foreign-made substitutes. Existing bounties are to be phased down until they expire. Bounties and their expiration dates are: shipbuilding, citrus fermentation and textiles—June 30, 1995; computers and circuit boards—December 31, 1995; machine tools and robots—June 30, 1996; books—December 31, 1997. 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 government are the primary purchasers.

Electricity production is 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.

7. Protection of U.S. Intellectual Property

Patents, copyrights, trademarks, designs and integrated circuits are protected by Australian law. Australia is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Geneva Phonograms Convention, The Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, 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 reproduction). 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 two additional periods of five years each upon application.

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. Australian law permits, in some product categories, parallel imports; that is, imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia. Parallel importation is allowed for books, and has been proposed for sound recordings (legislation which would have allowed such imports died when Parliament was dissolved for the March, 1993 national election). In September, 1993, the Australian copyright law review committee recommended that parallel importation of computer software be allowed under strict limitations.

Copyrights: Copyrights are protected under the Australian Copyright Act. Works do not require registration, and copyright protection automatically applies to 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.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, and against video piracy and unauthorized third-country im-

ports. However, no protection is accorded against the commercial rental of sound recordings without royalty payments. The U.S. continues to urge the government to provide for such protection in law. There have been no complaints about unauthorized public showings of films in recent 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.

8. Worker Rights

a. *The Right of Association.*—Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively; rights enshrined in the Arbitration Act of 1904. Although there is no specific legislation guaranteeing the right to strike in Australia, work stoppages are well-established in practice. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions whose mandate includes resolution of disputes through conciliation and arbitration. Australia has ratified the major International Labor Organization (ILO) conventions regarding worker rights.

b. *The Right to Organize and Bargain Collectively.*—Approximately 40 percent of the Australian work force belongs to a union. The industrial relations system operates through independent federal and state tribunals; unions are fully integrated into that process, having explicitly stated legal rights and responsibilities.

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

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

e. *Acceptable Conditions of Work.*—There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, but is now largely outmoded, although some minimum wage clauses still remain in several federal awards and some state awards. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals.

Workers in Australian industries, including the petroleum, food, chemicals, metals, machinery, electrical, transportation equipment, wholesale trade, and general manufacturing sectors, enjoy hours, conditions, health, safety standards and wages that are among the best and highest in the world.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,691
Total Manufacturing		6,631
Food & Kindred Products	1,279	
Chemicals and Allied Products	2,133	
Metals, Primary & Fabricated	388	
Machinery, except Electrical	488	
Electric & Electronic Equipment	374	
Transportation Equipment	418	
Other Manufacturing	1,551	
Wholesale Trade		1,424
Banking		1,011
Finance and Insurance		1,523

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Services	686
Other Industries	2,731
TOTAL ALL INDUSTRIES	16,697

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

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

[Billions of renminbi unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP ('80 bps)	1,128	1,272	1,440
Real GDP Growth (pct.)	7.0	12.8	13.0
GDP (at current prices)	1,958	2,145	2,724
GDP by Sector:			
Agriculture	526.0	579.3	N/A
Mining and Quarrying	43.5	54.8	N/A
Manufacturing	761.3	957.8	N/A
Services, etc	646.6	801.9	N/A
Net Exports of Goods and Services	58.1	42.8	N/A
Real Per Capita GDP ('80 bps)	1,688	1,828	2,013
Labor Force (millions)	565	568	571
Official Unemployment (pct.)	2.3	2.5	2.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	26.4	31.3	25
Personal Saving Rate[2]	39.3	40.0	40.0
Retail Inflation	2.9	5.4	14.0
Consumer Price Index	5.1	8.6	16.0
Exchange rate (RMB/$, year-end):			
Official	5.5	5.8	5.8
Parallel[3]	5.9	6.8	8.8
Balance of Payments and Trade (billions of U.S. dollars):			
Total Exports (FOB)[4]	71.9	84.9	89.2
Exports to U.S (CV)[4]	19.0	25.7	32.2
Total Imports (CIF)[4]	63.8	80.6	100.9
Imports from U.S (FAS)[4]	6.2	7.4	8.4
Aid from United States	0	0	0
External Public Debt	56.0	61.0	66.0
Debt Service Payments (paid)[1]	8.0	8.8	9.3
Gold and FOREX Reserves[5]	44.0	20.7	21.2
Merchandise Trade Balance	8.1	4.3	−11.7
Balance with U.S	12.8	18.3	23.8

N/A—Not available.

[1] 1993 Figures are all estimates based on monthly data available in October 1993. Sources: State Statistical Bureau (SSB) Yearbook, PRC General Administration of Customs Statistics, International Monetary Fund and World Bank Reports, U.S. Department of Commerce trade data, and embassy estimates.

[2] Personal saving rate is as estimated by the IMF in May 1992.

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

[4] U.S.-China bilateral trade is based on U.S. Government data. Trade totals are from Chinese customs data.

*The large drop in reserves between 1991 and 1992 is primarily due to a change in the method of accounting for foreign exchange reserves to exclude reserves held by banks other than the People's Bank of China.

1. General Policy Framework

In 1992 China embarked on a new period of economic reform and accelerated economic growth. The 14th National Party Congress in November 1992 formally adopted the establishment of a "socialist market economy" as the goal of Chinese economic policy. The Chinese economy grew 12.8 percent in 1992, and is expected to at least match this performance in 1993. The renewed dynamism of the Chinese economy in 1992–93 has influenced foreign and domestic views of China's long-term economic potential. Some estimates based on purchasing-power-parity comparisons suggest that China has already become the third-largest economy in the world. Many foreign firms see China as a key growth market, and foreign investment has reached record levels in 1992–93.

Rapid economic growth, however, has underscored continuing structural problems in the Chinese economy. During the first half of 1993, there were increasing signs that the Chinese economy had become overheated. Fixed asset investment rose 34 percent (in real terms), and gross industrial output jumped 25 percent. An expansive monetary policy accommodated the increase in aggregate demand leading to a sharp increase in inflation rates. Through the end of June, the annual increase of the national consumer price index exceeded 15 percent, and inflation in China's largest urban areas exceeded 22 percent. Rising inflationary expectations led to instability in the parallel foreign exchange market and to a decline in private savings. On the supply side, bottlenecks in the energy and transportation sectors have become obstacles to continued double-digit growth.

In order to restore macroeconomic stability, the Chinese government announced a new "16 point" economic plan at the beginning of July. The plan was designed to restrain speculative investment in real estate and other overheated parts of the economy, while preserving a high rate of overall economic growth. During the third quarter, the stabilization program met with some initial success. The swap market exchange rate stabilized, private savings increased, and monetary policy tightened. The annual growth in industrial output fell from over 30 percent in June to 19 percent in September.

Despite these initial gains, however, the Chinese economy continues to face a series of short-term challenges. The rate of growth of fixed investment and industrial output remains too high. The rapid rise in prices has been blunted, but inflation still remains at close to 20 percent. Enterprises and local governments have begun to criticize the impact of tighter credit policies, and payments arrears between enterprise have re-emerged as a widespread problem. As the Chinese economy entered the fourth quarter of 1993, the central bank began easing monetary policy in response to these concerns.

Since the introduction of stabilization measures in July 1993, Chinese authorities have stressed that the key to establishing more effective macroeconomic control is to deepen the process of reform. Major proposals for fiscal, financial, and enterprise reform were discussed at the Third Party Plenum in late 1993.

Current weaknesses in China's fiscal and tax systems limit the central government's ability to use fiscal policy as a macroeconomic policy instrument and to raise revenue for major national investment projects. China's official budget deficit in 1992 was about 2.5 percent of GNP, but the actual level of the deficit is more difficult to determine. An increasing share of government receipts and expenditures is off-budget, and much of the banking system's directed lending to state enterprises is quasi-fiscal in nature. China's system of taxation, in which the central government negotiates a share of tax revenue collected by provinces, has worked to the central government's disadvantage as the economic bargaining power of provincial authorities has increased.

Tax reform proposals now under consideration would establish a new tax-sharing system to regulate center-province fiscal relations. Provinces and the central government would each keep the revenue from the taxes they levy directly, and the two levels of government would also receive a fixed share of revenue from a third set of jointly-administered taxes. To rationalize the tax system, Chinese authorities intend to expand the scope of the value-added tax and to harmonize tax rates for enterprises with different types of ownership.

The proposed financial reforms have two key aims: (1) to establish a modern central bank that can conduct monetary policy using indirect market-based levers; and, (2) to transform the existing specialized banks into true commercial banks by shifting their policy lending to new development banks.

Chinese monetary authorities now have limited scope to use sophisticated financial levers such as re-discount rates or open market operations to control the money

supply. During periods of economic retrenchment, they must instead rely to a greater extent than they would prefer on crude administrative credit controls. The decentralized structure of the People's Bank of China (PBOC) increases the influence of provincial officials over central bank lending decisions, and makes it more difficult to control bank credit and the money supply. Chinese authorities hope to introduce a new central bank law in 1994 that would reorganize the PBOC along regional rather than provincial lines and restrict the government's ability to borrow from the PBOC to finance budget deficits. The PBOC would be granted greater independence and would focus on maintaining price stability.

According to Chinese officials, a proposed commercial banking law, expected to be adopted in 1994, will transform the existing state-owned specialized banks into commercial banks responsible for their own profits and losses. The PBOC would supervise the commercial banks, but they would be free to make their own lending decisions based on commercial considerations. Several new development banks would be established to provide long-term financing for key national investment projects. The development banks would rely primarily on the issuance of bonds for their funding. Other supporting measures would be adopted to promote regional commercial banks and increase competition in the domestic banking industry.

2. Exchange Rate Policies

During 1993, China administered a managed official exchange rate which was nominally linked to a trade-weighted basket of currencies. China issued foreign exchange certificates (FEC), a hard currency-backed scrip for domestic use by foreigners. Its currency, the renminbi (RMB), was not not freely convertible.

The official exchange rate of the Chinese currency against the dollar has remained relatively stable in the 5.6–5.8 RMB/$ range, despite large fluctuations in the parallel rate. The price of foreign exchange at foreign exchange adjustment centers (commonly called "swap centers"), fell to almost RMB 11/$ following the June 1 removal of swap center administrative price caps. In early July, the People's Bank of China intervened to support the RMB, but since that time, authorities have largely relied on administrative controls to stabilize the parallel rate. As of the end of October 1993, the rate at the major swap centers was about 8.7, versus an official rate of 5.77. On December 29, 1993, the Government of China announced that the country's exchange rate would be unified beginning January 1, 1994.

3. Structural Policies

China's structural policies are in the midst of a major realignment. At the 14th Communist Party Congress in the fall of 1992, the party endorsed the transition to a "socialist market economy," in which free market principles would guide nearly all economic activity. Public or socialist ownership will still predominate but would be distinguished from management rights, and planned production is to be generally phased out. Moreover, the central government more than ever is emphasizing greater openness of the national economy to foreign trade and investment, in marked contrast to pre-reform policies of maximizing national economic self-sufficiency.

The country's state-owned industrial enterprises, about two-thirds of which are either making no profits or actually losing money, are the crux of the structural reform program. While still shying away from any large-scale privatization of state-owned industries, the state council in July 1992 issued regulations designed to give these firms greater autonomy over their personnel, pricing, and investment decisions to make them more responsive to market forces. In addition, the central government has permitted limited experiments in new forms of corporate ownership (including issuance of stock, although government entities hold the majority of shares in most cases). Concern about social and political unrest caused by unemployed workers, however, has made the government reluctant to permit widespread bankruptcies among large- and medium-sized state-owned firms.

4. Debt Management Policies

China's current external debt burden remains within acceptable limits. At the end of 1992, the World Bank estimated China's external debt at $69.3 billion, or about 78 percent of China's 1992 exports of goods and services. China's 1992 debt service to export ratio was about 10–12 percent. The Asian Development Bank, the World Bank, and Japan are China's major creditors, providing approximately 60 percent of all China's governmental and commercial loans. In June 1993, China's official foreign exchange reserves stood at $18.9 billion.

5. Significant Barriers to U.S. Exports

China continues to impose barriers to U.S. exports, despite its stated goal of reforming and liberalizing its trade regime. In addition to prohibitively high tariffs for discouraged imports, China relies on multiple, overlapping non-tariff barriers, ad-

ministered at the national and provincial levels by various bureaus or ministries, to limit imports. These barriers have included absence of transparency in the trade regime; import-licensing requirements; import quotas, restrictions and controls; and standards and certification requirements.

On October 10, 1992, the United States and China signed a Memorandum of Understanding (MOU) on Market Access that commits China to dismantle almost 90 percent of its non-tariff import restrictions over five years and gradually open its markets to U.S. exports. The actions China has committed to take are among those that will be considered by members of the General Agreement on Tariffs and Trade (GATT) in examining China's pending application for membership. The GATT Working Party on China's accession met three times in 1993, continuing a process begun in 1986.

Until the signing of the MOU, many of China's trade laws and regulations were considered "internal" documents not available to foreigners. In line with the requirements of the GATT, the Chinese have committed to make their trade regime transparent. As agreed in the MOU, China has: (1) begun publishing laws, regulations, and decrees that govern trade, and made available some information of commercial interest to U.S. companies; (2) established a central register, the Ministry of Foreign Trade and Economic Cooperation "Gazette," for the publication of all trade regulations; (3) published a State Council notice, intended to halt the use of restricted internal directives, stating that only trade laws that are published can be enforced; and, (4) begun identifying agencies involved in the import approval process.

China's import-licensing system covers 53 broad categories of goods or about half of China's imports by value. The U.S.-China Market Access MOU commits China to progressively phase out import barriers (including licensing requirements, quotas, controls, and restrictions) in many key U.S. export sectors. China will eliminate the first set of licensing requirements by December 31, 1993. 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 and 90 percent by the end of 1997. 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, agricultural chemicals, pharmaceuticals, film and instant print film, instant cameras, photocopiers, beer, wine, alcoholic beverages, mineral water, wood products, steel, and a wide range of machinery.

Despite commitments in the market access agreement, China has not stopped using unscientifically based standards and certification as barriers to trade. China's phytosanitary and veterinary standards are often overly strict, unevenly applied, and not backed by modern scientific practices. In the MOU, China committed to resolve questions about scientifically unjustified phytosanitary restrictions on citrus fruits, stone fruits, apples, grapes, wheat, and tobacco, and to negotiate a veterinary protocol regarding the import of animal breeding stock. The 12-month deadline on these commitments has been extended until the end of 1993. As of October 1993, U.S. concerns have been partly resolved only with regard to apples and bovine semen. For manufactured goods, China has required quality licenses before granting import approval, with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products. In the MOU, China committed to apply the same standards and testing requirements to non-agricultural products, whether foreign or domestic.

China also uses tariffs as a tool to protect its domestic industry and restrict imports. Tariffs can run as high as 250 percent on goods such as automobiles. In addition, tariffs can vary for the same product, depending on whether the product is eligible for an exemption from the published tariff. These variations, and the unpredictability of tariff rates, make importing into the Chinese market difficult. China announced in December 1992 that it had lowered tariffs by an average of 7.3 percent on 3,371 items. The Chinese government also pledged in the market access agreement 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 products, machinery and mechanical appliances, electrical machinery and parts, perfumes, cosmetic and toiletry preparations, and games.

Behind these various policies stood a fundamental philosophy of import substitution. 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.

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In the past two years, China made a number of unilateral reforms to improve its trade regime. China adopted the 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, 1992. The National People's Congress adopted an Unfair Competition Law, effective December 1, 1993, which deals with protection of trademarks and commercial secrets, unfair practices by state monopolies and government departments, bribery, false or misleading advertising, predatory pricing, collusion, and other unfair practices.

While the market access agreement, if fully implemented, will reduce or eliminate many of the most serious barriers to the trade of 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 accounting, 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 enjoying a reciprocal level of participation 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 one "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. Following repeated U.S. Government requests for formal consultations on trade in services issues, China has agreed to such consultations, to commence in February 1994.

There are also significant barriers to investment which warrant further reform. 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. China also encourages the development of favored industries through tax incentives and tariff exemptions. Depending on the locality, investments above $30–50 million require national as well as local approval. The law permits repatriation of profits, so long as the venture has earned sufficient foreign exchange to cover the remitted amount. Foreign equity participation is restricted in some industries (for instance, no foreign equity is allowed in communications-related industries) but not in others, although wholly foreign-owned ventures are still rare.

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. Imports of audio and video recordings are hampered by strict quotas, restrictions on foreign exchange availability, and lax enforcement of intellectual property laws. China does not permit foreign membership on its stock exchanges, although foreigners may hold certain stock with restricted privileges.

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 that have 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 their foreign currency holdings at a rate higher than the official rate.

7. Protection of U.S. Intellectual Property

China has made significant progress in recent years in the enactment of laws and regulations to protect intellectual property. A copyright law, passed in 1990, went into effect in June 1991, and a trade secrets law was passed and went into effect in October 1993. China has acceded to a number of intellectual property conventions, including the Paris Convention on the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the Madrid

Agreement (trademarks), and has joined the World Intellectual Property Organization. Although not a member of the GATT, China has publicly declared its support of the Uruguay Round "TRIP's" text on intellectual property protection.

Much of this progress followed the U.S. decision in April 1991 to identify China as a "priority foreign country" under the Special 301 provisions of the Trade Act for its failure to provide adequate and effective protection of U.S. intellectual property. Subsequent negotiations under the Special 301 investigation resulted in the signing of a bilateral memorandum of understanding (MOU) on the protection of intellectual property on January 17, 1992. China has met most of its commitments under the agreement, which included amending its patent law, joining the Bern Convention, and enacting trade secrets legislation.

Although China has set in place a legal framework to provide adequate protection for intellectual property, the lack of effective enforcement of intellectual property laws remains a problem. In November 1993, China was moved up to the Special 301 "Priority Watch List," reflecting growing concern about weak enforcement. Copyright infringement and piracy of patented products are still pervasive. Inadequate protection of chemical and pharmaceutical products, software, books, and video and sound recordings in China reportedly costs U.S. manufacturers millions of dollars every year in lost sales. For instance, U.S. industry associations estimate that Chinese illegally copy U.S. software with a value of $150–300 million each year. Competing bureaucratic interests and the lack of a reliable legal system for resolving commercial disputes have also hampered the establishment of effective enforcement mechanisms. In Guangzhou, local authorities have been unwilling to shut down 26 recently-established compact disc factories, already exporting pirated recordings to southeast Asia and threatening progress on enforcement of intellectual property rights made elsewhere in Asia. Chinese authorities also face great challenges in educating the public on the value and importance of protecting intellectual property, a concept hitherto foreign to the vast majority of Chinese.

China's new copyright law, which took effect June 1, 1991, was an important step forward in the protection of intellectual property. While the law has a number of very positive aspects, including protection of computer software as a literary work, the lack of criminal penalties has diluted the law's deterrent effect. Moreover, prosecution of infringers under the copyright law must be initiated by the injured parties, not by the state. The National Copyright Administration has been assigned to enforce copyrights for published material and recorded works, but responsibility for the enforcement of software copyright has yet to be assigned. Despite passage of the law, pirating of books, tapes and computer software in China remains widespread.

The U.S.-China Intellectual Property MOU also committed China to bring about important improvements in the protection of patented products. An amendment to China's patent law, which took effect on January 1, 1993, extended patent protection to chemical, pharmaceutical and food products, materials which heretofore were excluded from eligibility. The revision also extended the term of patent protection from 15 to 20 years from the date of filing and gave the patent holder rights over importation. The MOU also provided for administrative protection of certain U.S. pharmaceutical and agricultural chemicals as of January 1, 1993. China agreed to provide the administrative equivalent of full product patent protection for these products if they were patented in the U.S. between 1986 and 1993 but not yet marketed in China. Most other western countries have subsequently acquired these same protections. The Ministry of Chemical Industries is administering the regime. The Ministry's procedures will be monitored by the U.S. Government to assure their fairness and impartiality.

China's trademark regime is generally consistent with international practice. Revisions providing for increased criminal penalties for infringement have significantly strengthened the law's efficacy. However, pirating of trademarks is still widespread and actions taken against infringers generally must be initiated by the injured party. In addition, foreign patent holders are required to use one of five designated patent agencies in bringing administrative enforcement actions, while domestic patent holders have a choice of more than 70 agencies.

In July 1993, China established two IPR courts in Beijing in an effort to facilitate judicial action on IPR-related cases. Officers of these courts will specialize in IPR law and under the rules of the courts, cases should be concluded within six months. A number of U.S. industry associations expect to submit infringement cases to this court in the near future.

8. Worker Rights

a. *The 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. China's only union, the All

China Federation of Trade Unions (ACFTU), while nominally an independent organization, is closely controlled by the Communist Party. There are no overtly operating independent trade unions in the PRC. Union membership is voluntary for individual employees, but it is compulsory for all state and urban collective enterprises to have a union. Virtually all state sector workers and nearly 90 percent of all urban workers belong to ACFTU chapters. As enterprises outside the state industrial sector have proliferated under reform, union membership has not kept pace. Roughly half of China's non-agricultural work force fall outside the ACFTU umbrella. The moribund official union has shown little ability to organize workers in township and village enterprises or in foreign-invested ventures. Despite recent calls to organize these workers, only about 20 percent of the work force in foreign-invested ventures is unionized. If a worker is unemployed, he or she is not considered a union member.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is officially sanctioned in only a small number of private enterprises, but the Chinese Ministry of Labor is reportedly drafting legislation that would broaden this, possibly to include all foreign-invested enterprises. Hitherto, the ACFTU's role has been restricted to a consultative one in the decision-making process over wages, wage reforms and health and safety issues. 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 management 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 of Forced or Compulsory Labor.*—China has not ratified International Labor Organization (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 "re-education through labor." Chinese officials claim that China's prison population (officially numbered at 1.2 million) produces goods worth RMB 2.5 billion annually, primarily for use within the prison system or for domestic sale. 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. Under the MOU, U.S. officials have visited three suspected facilities and received from Chinese authorities 32 requested investigation reports.

U.S. Customs recently lifted two detention orders against Chinese facilities after thorough investigations revealed no evidence that the facilities were exporting prison labor-produced goods to the United States. U.S. Customs also visited a fourth facility on January 20, 1994.

In an effort to improve cooperation under the MOU, the United States and China concluded an exchange of letters outlining specific guidelines for investigation of pending cases during Treasury Secretary Bentsen's January 1994 visit to China. The standards:

—specify that China will promptly investigate suspect facilities, based upon U.S. requests;

—establish a timetable for processing requests for site visits and set standards for revisits to facilities; and

—ensure that the United States will promptly provide China with the results of its visits to facilities suspected of utilizing prison labor to produce exports.

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. State Council regulations impose severe fines, withdrawal of business licenses, or jail for employers who hire children under the age of 16. Recent surveys indicate increased dropout rates among lower secondary schools in several southern provinces, suggesting the booming economy is luring children aged 12 to 15 away from their studies. In poorer, isolated areas child labor in agriculture is widespread.

e. *Acceptable Conditions of Work.*—China does not have a unified labor code. Rather, working conditions are governed by a patchwork of regulations promulgated by various levels of government. 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. National minimum wage legislation is being

drafted, but some areas, particularly in southeast China, have issued provisional local minimum wage regulations. While Chinese wages (averaging perhaps $35 per month) are low, most workers receive at least as much in bonuses, food and transportation supplements, and enjoy highly subsidized rents. The maximum work week is 48 hours with a mandated 24 hour rest period. 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.

Like Chinese state and collective enterprises, joint ventures and foreign-owned companies are required to allow unions and, if a union is formed, provide facilities for union activities. The larger joint ventures, which include most U.S. Firms, commonly have unions, but many small, wholly foreign-owned firms are not unionized. In addition to the joint venture law of 1988, many coastal provinces and cities have now passed regulations specifically requiring foreign ventures to allow unions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		91
Total Manufacturing		260
Food & Kindred Products	19	
Chemicals and Allied Products	61	
Metals, Primary & Fabricated	−3	
Machinery, except Electrical	−3	
Electric & Electronic Equipment	18	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		94
Banking		(2)
Finance and Insurance		1
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		469

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

HONG KONG

Key Economic Indicators

[Millions of HK dollars unless otherwise noted]

	[1] 1991	[2] 1992	[3] 1993
Income, Production, and Employment:			
Real GDP (1980 prices)	273,524	287,941	303,202
Real GDP Growth (pct.)	4.1	5.3	5.3
GDP (current price)	643,728	747,432	857,561
GDP by Sector (pct. of total):			
Agriculture	0.2	N/A	N/A
Energy and Water	2.2	N/A	N/A
Manufacturing	15.5	N/A	N/A
Construction	5.3	N/A	N/A
Rents	3.6	N/A	N/A
Finance [4]	23.0	N/A	N/A

Key Economic Indicators—Continued

[Millions of HK dollars unless otherwise noted]

	[1] 1991	[2] 1992	[3] 1993
Other Services [5]	35.1	N/A	N/A
Government, Health and Education	15.4	N/A	N/A
Net Exports of Goods and Services (in current prices)	19,128	12,774	17,935
Real Per Capita GDP (1980 prices)	47,558	49,453	51,197
Labor Force (000's) [6]	2,826	2,820	2,848
Unemployment Rate (pct.) [7]	1.8	2.0	2.0
Money and Prices (pct. growth unless stated):			
Money Supply (M-2) [6]	13.3	10.8	11.2
Base Interest Rate (pct.) [6] [8]	8.5	6.5	6.5
Personal Sav. Rate (pct.) [6] [9]	3.5	1.5	1.5
Consumer Price Index (A) [10]	114.5	125.2	138.4
Official Exchange Rate (HKD/US$)	7.781	7.741	7.736
Trade and Balance of Payments:			
Total Exports (FOB)	765,886	924,952	1,067,394
Exports to U.S (FOB)	173,672	213,099	241,867
Total Imports (CIF)	778,982	958,462	1,103,189
Imports from U.S (CIF)	58,837	70,594	78,289
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (millions of US$)	0	0	0
Annual Debt Service	0	0	0
Foreign Exchange Reserves [11]	30,369	37,075	N/A
Trade Balance	−13,096	−33,510	−35,795
Balance with U.S	114,835	142,505	[3] 163,578

N/A—Not available.
[1] Revised August 1993 estimate.
[2] Revised August 1993 estimate.
[3] Consulate projection based on first three quarters statistics.
[4] Includes finance, insurance, real estate and business services.
[5] Includes wholesale, retail, import/export trade, restaurants, hotels, transport, storage and communications.
[6] End of period.
[7] Average figures, seasonally adjusted.
[8] Prime lending rate.
[9] Savings deposit rate.
[10] Oct. 1989–Sept. 1990 equals 100; CPI (a) covers urban households with monthly expenditure of HKD 2,500–9,999 (approximately 50 percent of households).
[11] Foreign currency assets of Exchange Fund (US$).

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 transparent regulations and consistent application of the rule of law. Market forces determine wages and prices in Hong Kong, with price controls limited only to certain government-sanctioned monopolies in the service sector. There are no restrictions on foreign ownership of capital (except for some limitations in the media sector) nor are there export performance or local content requirements. Profits may be freely repatriated. There are, however, some barriers to entry in certain service sectors, in particular medicine, law, and telecommunications.

Hong Kong's generally free market, laissez-faire policies have spurred high rates of real growth, low unemployment, rising wages, a steady increase in standard-of-living, and one of the highest per-capita GDP levels in the world (US $16,400 in 1992). The constantly growing economy has produced additional tax revenues independent of modest increases in excise, real estate and business profits taxes. Currently, the corporate profits tax stands at 17.5 percent, and personal income is taxed at a maximum rate of 15 percent. Property is taxed; interest, royalties, dividends, capital gains and sales are not taxed. 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 maintains a strict link between the Hong Kong and U.S. dollar at a ratio of 7.8 to 1. This forces Hong Kong monetary authorities to track U.S. interest rates. In practical effect, because of Hong Kong's current 8.5 percent inflation rate, Hong Kongers faced negative real interest rates in 1993. This in turn has led individuals to put their money in the stock and property markets, driving up the values of each.

The Hong Kong government levies no import tariffs. However, domestic consumption taxes (sometimes referred to as duties in Hong Kong) are imposed on certain goods, including tobacco, alcoholic beverages, methyl alcohol and some fuels, to the detriment of exporters and sellers of those products (see under Barriers to Trade).

Hong Kong is an entrepot for Chinese and regional trade. One third of all of China's exports flow through Hong Kong on their way elsewhere, and 25 percent of China's imports come via Hong Kong. The opening of China, and especially the development of Guangdong province as a low-cost manufacturing base, has encouraged Hong Kong to shift from a manufacturing to a services-based economy; 80 percent of Hong Kong's GDP now derives from the service sector.

Hong Kong is an active Contracting Party to the GATT and strongly supports an open multilateral trading system. Notwithstanding its status as a colony of the United Kingdom, Hong Kong is a member of a number of other multilateral organizations, including the Asia Pacific Economic Cooperation (APEC) forum. On July 1, 1997, Hong Kong will revert to People's Republic of China sovereignty. However, as guaranteed by the 1984 Sino-UK Joint Declaration and the 1990 PRC Basic Law, Hong Kong will become a Special Administrative Region of the PRC; while China will take over responsibility for foreign affairs and defense, Hong Kong will retain authority to manage its economic, social, legal, budget and other internal systems. Hong Kong will remain a separate customs territory with all of its current border arrangements, and it will retain its independent membership in such economic organizations as the GATT.

2. Exchange Rate Policies

As noted, the Hong Kong dollar is linked to the U.S. dollar at the rate of HK $7.8 = US $1. This link has existed since October 1983. The Hong Kong government remains firmly committed to ensuring currency stability through the linked exchange rate as the cornerstone of its monetary policy, despite some systemic inflation. Authority for maintaining the exchange value of the Hong Kong dollar as well as the stability and integrity of the financial and monetary systems rests with the Hong Kong Monetary Authority, which was established in April 1993 through the consolidation of the Office of the Exchange Fund and the Commissioner of Banking. There are no multiple exchange rates and no foreign exchange controls of any sort.

Under the linked exchange rate, the overall exchange value of the Hong Kong dollar is influenced predominantly by the movement of the U.S. dollar against other major currencies. The price competitiveness of U.S. exports is affected in part by the value of the U.S. dollar in relation to third country currencies. While the proportion of Hong Kong's imports from the U.S. has declined slightly as a percentage of its total imports in recent years, Hong Kong still consumes more U.S. goods per capita than almost any other economy. U.S. firms have increased exports to Hong Kong by well over US $1 billion each year in the 1990s.

3. Structural Policies

Hong Kong is committed to free trade, free enterprise, and free markets. Its noninterventionist policies have brought rising prosperity and low unemployment to the colony and have created an attractive barrier-free market for U.S. goods exporters and most services providers. There are virtually no controls on trade and industry other than to meet international obligations associated with health, safety and security. Procurement is conducted on an open basis; while in the past British firms have seemed to enjoy an advantage in bidding for major contracts, U.S. firms have more recently been quite successful in both the design and supply stages of major projects. Other factors often cited for Hong Kong's dynamic economic success include a simple, low-rate tax structure, a well-educated and industrious work force, and an extremely efficient transportation and communications infrastructure.

The Hong Kong government takes justified pride in its port and airport efficiency, but increasingly the airport at Kai Tak and Hong Kong's port system are under strain. Major new infrastructure is being developed and U.S. contractors and suppliers have already successfully competed for some contracts. However, both the replacement airport and the new container port projects risk being substantially delayed because they have been linked by China to progress in constitutional talks with the United Kingdom.

4. Debt Management Policies

The Hong Kong government has minuscule public debt. Prudent fiscal management and strong fiscal reserves have obviated the need to borrow. To promote the development of Hong Kong's debt market, the HKG in mid-1991 launched a short-term government bond program through the issuance of two-year bonds. However, the bonds are being phased out and replaced with two-year exchange fund notes. The program was expanded in October 1993 to include notes of three-year maturity. In March 1990, the monetary authorities began issuing exchange fund bills, which carry maturities of up to 364 days. These provide an instrument for conducting money market operations, not to finance government expenditures.

Infrastructure spending related to implementation of the port and airport development strategy will result in the statutory corporations involved in the construction of the airport and related projects incurring debt once the UK and PRC reach agreement on a final financing plan for construction of a new airport. Construction is well underway on those airport core projects that the HKG can fund itself.

5. Significant Barriers to U.S. Exports

High Alcohol Taxes: As noted, Hong Kong levies high taxes (both specific and ad valorem) on "Western-style" spirits and wines. While these taxes are levied equally on local manufacturers and imports of, e.g., brandy, U.S. exporters of wine and distilled spirits argue that it is unfair that "Chinese-style" wine—actually a distilled product—is taxed at a much lower rate. The Hong Kong government replies that Chinese spirits are different products (although no distinction other than geographic has yet been written into the tax codes) and that it is equitable to charge less tax on a product consumed principally by poorer individuals. The government also insists it needs the tax revenue. However, U.S. exporters note that the increasing taxes have led to decreased consumption and in fact lowered net tax revenues over the last two years.

Airport Aviation Services: At Hong Kong's present airport (Kai Tak), maintenance, cargo handling, catering and other aviation services are provided either by a UK-affiliated monopoly or duopoly. This has prevented U.S. service providers from competing, and has denied U.S. carriers adequate competitive choice. However, the Provisional Airport Authorities of Hong Kong have committed to having multiple service providers at the new, larger airport. Current plans are for two licenses for base maintenance, three or four for catering, and two for cargo handling (one for express cargo handling). Apart from the existing operators, three other groups have applied for licenses for cargo handling, including a U.S. company.

Civil Aviation Agreement: The U.S.-Hong Kong civil aviation market is ruled by the restrictive provisions of the U.S.-UK Bermuda II Agreement. Since this agreement will become invalid when sovereignty over Hong Kong shifts from the UK to the PRC in 1997, U.S. and Hong Kong negotiators have met on several occasions to strike an independent bilateral agreement. The U.S. continues to press for a substantially more open civil aviation market, including "fifth freedoms" for cargo and more fifth freedoms and additional gateways for passenger traffic.

Telecommunications/Basic Voice: In late 1992 the Hong Kong government announced it would open local wired-voice telephone services to competing network(s) by July 1994. Data will be allowed immediately and voice in July 1995. The government invited bids in September 1992 and there are now five local and foreign applicants for the license(s) including U.S. firms. A UK-affiliated company will retain the monopoly contract for international basic voice service until 2006. Cable Television: A Hong Kong-based company has been granted an exclusive three year license to distribute cable television in Hong Kong.

Professional Services: Physicians/Nurses—UK-trained physicians may practice in Hong Kong with pro forma certification, and some Commonwealth nationals receive expedited certification, but North American doctors are forbidden from practicing without going through a lengthy retraining program. Discussions have been held with the Hong Kong government; there are indications the training period might be shortened but not done away with. Lawyers—Since 1971 Hong Kong has permitted foreign law firms to operate in the territory to advise on foreign law, but not on local law; foreign law firms have also been prevented from hiring local lawyers to advise on local law. Draft legislation would liberalize the legal profession, but foreign law firms remain concerned that the draft bill grants too much regulatory oversight to the Hong Kong Law Society ("Bar" equivalent).

Fuel Supply Policy: At present, the Hong Kong government grants a monopoly to a local company to supply fuel to public housing estates. Recently the housing authorities agreed to review the fuel supply policy and will consider seeking tenders from multiple companies.

6. Export Subsidies Policies

The government neither protects nor subsidizes manufacturers, although local legislators have repeatedly called for more government support to local industries. The quasi-governmental Hong Kong Trade Development Council engages in export and import promotion activities with a budget of approximately US $122 million. Its budget is financed by a tax on exports and imports of 0.05 percent. Starting in 1994, the charge will be lowered to 0.03 percent.

7. Protection of U.S. Intellectual Property

Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention and the Universal Copyright Convention. Hong Kong has enacted laws covering trademarks, copyright for trade descriptions (including counterfeiting), industrial designs and patents.

Hong Kong's patent law is currently dependent on the United Kingdom Patent Law; patent protection is obtained by registering a UK or European patent with the Hong Kong Registrar of Patents. The Hong Kong patent's life lasts as long as the original patent in the UK.

In January 1993, the Patent Steering Committee released a report outlining an independent patent system for Hong Kong (part of the mammoth "legal localization" that must occur as Hong Kong shifts from British to Chinese sovereignty). The Committee proposed a new system which provides for the granting of independent patents in Hong Kong based on the patents granted by the European Patent Office in the first phase and, in the second phase, by the Chinese Patent Office. The proposal contains a "petty patent" concept—designed to be fast and easy but with a short life—designed for products such as toys, watches and electronic products. In 1992 a total of 1,069 patents were registered in Hong Kong.

Unlike the Patent law, all trademark registrations in Hong Kong are original: they are valid for seven years and renewable for 14 year periods. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of the Hong Kong Trademarks Ordinance, the provisions of which are similar to trademarks legislation in the United Kingdom. In March, 1992, the Trademark Ordinance was enacted to include the registration of service marks. A total of 5,500 trademarks were registered in 1992, of which 1,355 were from U.S. corporations.

Copyright protection in Hong Kong derives from United Kingdom law extended to Hong Kong and from the Hong Kong Copyright Ordinance. The Law Reform Commission is conducting a review to "localize" and to consider updating copyright protection. Protection under the Copyright Ordinance is automatic; no registration is necessary.

In April 1993, a bill was drafted for the protection of layout-designs (topographies) of integrated circuits. Most of the provisions of the bill are based on similar legislation in the UK and Australia. The Bill also meets standards set out in the Treaty on Intellectual Property in Respect of Integrated Circuits (the 1989 Washington Treaty) and the agreement on Trade Related Aspects of Intellectual Property Rights in the GATT Uruguay Round.

Penalties: Patent violations carry civil penalties; trademark and copyright infringements carry criminal penalties. Counterfeiting and trademark infringement carry maximum penalties of US $13,000 and imprisonment for two years on summary offenses and US $65,000 and imprisonment for five years on indictable offenses. Copyright infringement carries a penalty of US $130 for each copy and imprisonment for one year.

Enforcement: The Customs and Excise Department is responsible for enforcing the criminal aspects of intellectual property rights. The Department has a special IPR unit with over 100 employees; in addition to conducting raids on local establishments and street vendors, this unit works closely with the anti-smuggling task force to combat suspected smuggling operations. In the first eight months of 1993, there were 298 seizures of copyright infringing products with a total value of HKD 19 million (US $2.5 million) and 614 seizures of goods violating trademarks and trade descriptions with a total value of HKD 385 million (US $50 million).

Most of the pirate manufacturers have been driven out of Hong Kong in the last several years. However, many more have established operations across the border in south China. Despite numerous seizures this year in Hong Kong and at the PRC-Hong Kong border, Customs officials are fighting an uphill battle. Absent effective enforcement at the point of manufacture in China, Hong Kong's market—and other markets in Asia—will confront a growing number of pirated entertainment products and counterfeit trademarked goods.

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. *The Right of Association.*—The right of association and the right of workers to establish and join organizations of their own choosing are guaranteed under local law. Unions are defined as corporate bodies and enjoy immunity from civil suits arising from breaking of contingent contracts or interference with trade by work stoppages on the part of their members. 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. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is guaranteed under local law. However, the right is not widely excercised 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 for 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.

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 for all persons under age 18 in industrial establishments. In extending basic protection to its work force, 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		385
Total Manufacturing		2,243
Food & Kindred Products	(1)	
Chemicals and Allied Products	153	
Metals, Primary & Fabricated	(1)	
1Machinery, except Electrical	242	
Electric & Electronic Equipment	1,381	
Transportation Equipment	(1)	
Other Manufacturing	369	
Wholesale Trade		2,914
Banking		932
Finance and Insurance		1,291

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Services	349
Other Industries	430
TOTAL ALL INDUSTRIES	8,544

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

INDONESIA

Key Economic Indicators

[Billions of rupiah (RP) unless otherwise noted]

	1991	[1] 1992	[2] 1993
Income, Production, and Employment:			
Real GDP (1983 rp)	123,164	130,908	139,500
Real GDP Growth (pct.)	7.0	6.3	6.5
GDP (current prices)	227,162	254,000	295,000
Real GDP by Sector:			
Agriculture	22,657	24,003	25,498
Mining	19,341	19,064	18,757
Manufacturing	24,481	26,856	29,494
Electricity, Gas, Water	843	928	1,023
Construction	7,475	8,171	8,943
Retail Trade, Hotels	19,572	21,029	22,646
Transport, Communications	6,869	7,595	8,400
Banking, Finance	5,561	6,257	7,031
Real Estate	3,120	3,249	3,393
Government	9,052	9,320	9,617
Other Services	4,192	4,433	4,702
Real Per Capita Income (000's of RP)	676	703	740
Labor force (million)	78.5	81.0	83.5
Unemployment Rate (pct.)	2.6	2.6	2.7
Money and Prices:			
Money Supply (M2, pct. rise)	17.1	20.2	17.3
Interest Rates [3]	15.2	12.0	9.8
National Savings (pct. GDP)	21.7	19.0	20.0
CPI (FY1988/89=100) [4]	129	135	148
CPI (pct. increase)	9.5	5.0	9.8
WPI (1983=100) [5]	187	197	213
Exchange Rate (RP/$) [5]	1,950	2,030	2,100
Trade and Balance of Payments (millions of U.S. dollars):			
Exports FOB	29,635	33,796	38,000
Oil and Gas	11,455	10,496	10,000
Non-oil and Gas	18,180	23,300	28,000
Exports to U.S. FOB	3,238	4,332	4,800
Imports FOB	24,834	26,774	28,800
Oil and Gas	3,370	3,361	3,400
Non-oil and Gas	21,464	23,413	25,400
Imports from U.S. CIF	2,920	3,638	3,200
Services (net)	−9,193	−10,144	−12.000
Current Account	−4,392	−3,122	−2,800
Official Debt Service	6,875	7,375	7,500

Key Economic Indicators—Continued

[Billions of rupiah (RP) unless otherwise noted]

	1991	[1]1992	[2]1993
Official Reserves	9,868	11,610	12,700
U.S. Direct Investment	3,458	3,600	3,750
Total Foreign Assistance[6]	4,755	4,948	4,600
of which U.S.	174	153	94

[1] Preliminary.
[2] Estimated.
[3] Interbank fund rates.
[4] End of period. Fiscal years are from April 1 to March 31.
[5] Period average.
[6] 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 continues to shift from reliance on the oil and gas sector to a broader base. In 1992, non-oil manufacturing accounted for 17.5 percent of gross domestic product (GDP), oil and gas production and refining for 13.0 percent, agriculture for 16.7 percent, and trading, hotels and restaurants for 16.6 percent. Real growth in GDP averaged 6.7 percent from 1987–92, with 7-percent-plus growth in 1989, 1990, and 1991, and 6.3 percent in 1992. Growth in 1993 is expected to be again in the area of 6.5 percent.

Faced with lower oil prices in the early 1980's and the need to create more than two million jobs annually, the government of Indonesia in 1983 launched its ongoing program of "deregulation and de-bureaucratization". The twin goals are to give freer reign 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 for some years has imposed no capital controls. In the most recent packages, released in June and October 1993, the government reduced duties on hundreds of categories of imports and eased or eliminated trade barriers on a number of other goods, including various iron and steel products and some classes of used machinery and capital plant. The October 1993 package also contained a number of measures designed to simplify investment procedures and make Indonesia more attractive to foreign investors. 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 exploded at an average annual rate of about nine percent over the past five years. Private investment has also been vigorous, although 1992 levels of approved domestic investment were substantially lower than the high 1991 levels, and 1993 levels will probably be lower still. Foreign investment approvals in the first seven months of 1993 indicate that the yearly figure will be slightly less than $10 billion; the decline is due in large part to a massive slowdown in Japanese investment.

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 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. The appreciation of the yen has exacerbated the debt-service burden—about 40 percent of Indonesia's public debt is held in yen.

In 1993, interest rates continued to fall, from 22 percent for three-month time deposits in the fourth quarter of 1991 to below 17 percent in September 1992 and 11 percent in October 1993. Deposit rates dropped more rapidly than lending rates.

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 late 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. The exchange rate on November 1, 1993 was 2,097 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; until recently, the purchasing body's clove buying had been supported with central bank liquidity credits. Under a recent agreement, a large clove cigarette firm has assumed most of the stockpile.

Direct government subsidies are confined to a few goods such as fertilizers and certain refined petroleum products; the government is steadily lifting most direct subsidies, however. The government is particularly 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 about $85 billion, with $51 billion owed by the state sector and $34 billion by the private sector. The appreciation of the yen has had the largest impact on service of the public debt, most of the private sector debt is dollar-denominated, as are most exports. In 1993 Indonesia will pay approximately 30 percent of total export earnings in principal and interest payments on its foreign debt. The government is fully committed to meeting its debt service obligations and has no plans to seek a debt rescheduling.

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 now 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. In June 1993, the government issued a deregulation package which included provisions to allow the importation of completely built-up passenger vehicles, albeit with import duties of 300 percent. This move is in line with a general trend toward replacing non-tariff barriers with tariffs and surcharges as the preferred method of protecting certain domestically produced goods.

Services barriers: Services barriers abound, although there has been some loosening of restrictions, particularly in the financial sector. Foreign banks, securities firms, and life and property insurance companies are permitted to form joint ventures with local companies; in all cases, the capitalization requirements are higher

than for domestic firms. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market. Foreigners are permitted to purchase up to 49 percent of a company's shares listed on the stock exchange.

Foreign attorneys may serve as consultants and technical advisors. However, attorneys are admitted to the bar only if they have graduated from an Indonesian legal institution 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. Films may be imported and distributed only by fully Indonesian-owned companies. Although the government passed a film law in April 1992 which improves the climate for film and video, the government's failure to issue the relevant implementing regulations has stymied the distribution of legally-produced and procured videos and laser disks.

Standards, testing, labelling, and certification: Although there is some discussion in Jakarta over food labeling, no labeling regulations now exist. The October 1993 deregulation package contained provisions which will significantly affect the pharmaceutical industry, such as opening the market to imported drugs and greatly loosening the provisions for registration of drugs which have already been approved in other countries. Implementing regulations and full details of the changes have not yet been issued, however, and the long-term effects on the industry remain unclear. Previously, a foreign firm could register prescription pharmaceuticals only if they both incorporated high technology and were 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 still does not exist. Recent deregulation packages have opened a few areas to 100 percent foreign investment. The October 1993 package allows for 100-percent foreign ownership of ventures with a value of $2 million or more which produce raw and intermediate materials for Indonesian industry. The 1992 package allows complete foreign ownership of projects worth $50 million or more; 100 percent foreign ownership is also allowed for projects located in bonded or export zones and in certain remote areas. The foreign owners must begin to divest to Indonesian ownership in the 11th year of the project; by the end of the 20th year divestiture must reach between 20 and 51 percent, depending on the type of investment. Other foreign investment must be in the form of joint ventures, with a minimum Indonesian equity of usually 15 percent. To date, the laws and regulations on divestiture have been 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 a few 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 problem.

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 seven 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 an equivalent amount 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 1993, only two such enterprises had made public offerings.

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 industrial 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. Producers have complained, however, that the procedures for processing duty refunds are extremely slow and unworkable.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization and is a party to 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 accession to it. Indonesia has made progress in intellectual property protection, but it remains on the U.S. Trade Representative's special 301 "watch list" due both to inadequate intellectual property rights legislation as well as poor enforcement of existing legislation.

Patents: Indonesia's first patent law came into effect on August 1, 1991. Implementing regulations clarified several areas of U.S. 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 took effect on April 1, 1993. Under the new law, trademark rights are determined by registration rather than first use. After registration, the mark must actually be used in commerce. Well-known marks are protected under the new law, though some previous registrations remain a problem; cancellation actions must be lodged within five years of the trademark registration date.

Copyrights: On August 1, 1989, a bilateral copyright agreement with the United States went into effect, extending national treatment to copyrighted works of each country. Enforcement of the ban on pirated audio and video cassettes and textbooks has been vigorous, but 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 reduced some losses from pirating, but significant problems still exist. To date, U.S. companies have not entered the video market because of concerns about restrictions on distribution. The vacuum in the market has left an opening for the resurgence of pirated video tapes and the illegal rental of smuggled laser discs.

New technologies: Biotechnology and integrated circuits are not protected under Indonesian intellectual property laws. Indonesia has, however, participated in a WIPO 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 losses are significant and U.S. industry has placed considerable importance on improvement of Indonesia's intellectual property regime and access to its market.

8. Worker Rights

a. *The Right of Association.*—Private sector workers, including those in export-processing zones, are free to form or join unions without prior authorization. However, in order to bargain on behalf of employees, a union must register as a social 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. In September, 1993, SPSI began a transformation from a unitary to a federated structure. By November, 12 of its 13 industrial sectors were registered as independent unions. Finalization of this transformation will require modification of the SPSI constitution.

Civil servants are not permitted to join unions and must belong to Korpri, a non-union association whose central development council is chaired by the Minister of

Home Affairs. Teachers must belong to another government-sponsored association. 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.

In 1992 two petitions were filed to remove GSP benefits from Indonesia for failure to provide internationally recognized worker rights, one by the AFL–CIO and one by Asia Watch. The review was extended for a limited period in the 1993–94 review cycle to permit time for consideration of reforms in laws and regulations.

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 International Labor Organization (ILO) Convention 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. Their work day 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.*—Indonesian law establishes a seven hour workday and a 40-hour work week, with one 30 minute rest period for each four 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.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,686
Total Manufacturing		138
Food & Kindred Products	(1)	
Chemicals and Allied Products	54	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		46
Banking		(1)
Finance and Insurance		13
Services		(1)
Other Industries		294
TOTAL ALL INDUSTRIES		4,278

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

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

JAPAN

Key Economic Indicators

[Trillions of yen unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GNP [1]	418.1	424.3	[2] 424.4
Real GNP Growth rate (pct.)	4.1	1.5	[3] −0.4
Real GDP Growth rate (pct.)	4.0	1.3	[3] −0.5
GDP (at current prices)	450.8	464.8	[2] 467.7
Real GNP by Sector: [1]			
Agriculture & Fisheries	9.5	N/A	N/A
Manufacturing	132.8	N/A	N/A
Construction	36.0	N/A	N/A
Electricity, Gas	14.0	N/A	N/A
Wholesale, Retail	57.4	N/A	N/A
Finance and Insurance	24.7	N/A	N/A
Real Estate	40.1	N/A	N/A
Services	59.5	N/A	N/A
Per Capita GNP (US$ 000's) [4]	26.9	N/A	N/A
Labor Force (million)	65.1	65.8	[5] 66.0
Unemployment Rate (pct.)	2.1	2.2	[5] 2.4
Money and Prices:			
Money Supply (M2+CD annual avg., pct.)	3.6	0.6	[6] 0.9
Commercial Interest Rates (10-yr. govt. bonds; yr.-end)	5.38	4.52	[7] 3.73
Savings Rate (pct.) [8]	15.0	N/A	N/A
Investment Rate (pct.) [9]	32.1	30.8	[2] 30.1
CPI (1990 equals 100)	103.3	105.0	[5] 106.3
WPI (1985 equals 100)	99.4	97.8	[6] 95.4
Exchange Rate (yen/$)	134.5	126.7	[6] 112.2

Key Economic Indicators—Continued

[Trillions of yen unless otherwise noted]

	1991	1992	1993
Trade and Balance of Payments: (billion U.S. dollars):			
Total Exports, (FOB)	314.5	339.7	[10]268.6
Total to U.S., (FOB)	91.5	97.2	[10]78.1
Total Imports, (CIF)	236.7	233.0	[10]179.3
Total from U.S., (CIF)	48.1	47.8	[10]35.9
Balance with U.S	43.4	49.6	[10]42.2
Balance of Payments:			
Current Account	72.9	117.6	[11]88.3
Trade Account	103.0	132.3	[11]94.6
Service & Trans	−30.1	−14.8	[11]−6.2
Long-term Capital	37.1	−28.5	[12]−38.4
Basic Balance	110.0	89.1	[12]47.9
Short-term Capital	−25.8	−7.0	[12]−6.9
Gold and FOREX Reserves (year-end)	69.0	68.7	[7]86.1

N/A—Not available.
[1] Total and sectoral real GNP figures in 1985 yen.
[2] Jan.-June, S.A.A.R.
[3] Jan.-June, year-over-year.
[4] World Bank estimate.
[5] Jan.-August, average S.A.
[6] Jan.-September, average, N.S.A.
[7] End of September.
[8] Savings as percent of personal disposable income.
[9] (Public and private domestic fixed capital formation and inventory investment)/nominal GNP.
[10] Jan.-September total, N.S.A.
[11] Jan.-August total, S.A.
[12] Jan.-August total, N.S.A.

1. General Policy Framework

The world's second-largest economy, with 1992 GNP of yen 465 trillion ($3.7 trillion), Japan remains mired in one of its deepest and longest postwar downturns. Following a period of rapid, domestic demand-led growth in the late 1980s, restrictive fiscal and monetary policy succeeded in bursting the asset price "bubble" (land prices doubled, stock prices tripled, 1985–89)—but at a price of large-scale asset deflation.

Asset price deflation, plus the fall-off from the late 1980s surge in private investment, have prolonged the current slump. Weak final demand, declining corporate profits, and low utilization of existing capacity (reflecting the buildup of the late 1980s) have suppressed business investment. Similarly, consumer spending has been dampened by fewer new hirings and by slowed income growth due to lower wage settlements, reduction in overtime hours, and smaller bonuses.

Slow growth has meant a general decline in imports since 1990, while exports have continued to grow at five percent per year. Japan's current account surplus has consequently risen since then to set a new record of $118 billion in 1992, or 3.2 percent of GNP. Widespread structural rigidities remain which either directly impede imports or impair their price competitiveness (for instance, complex distribution channels). To address these problems, recent Government of Japan economic stimulus initiatives have included among their objectives deregulation and pass-through to consumers of import price reductions due to yen appreciation.

The Government of Japan has taken both fiscal and monetary policy steps to attempt to deal with the slack in the economy. Increased government investment in the form of two major spending packages in August 1992 (yen 10.7 trillion) and April 1993 (yen 13.2 trillion), has provided virtually the only boost to the economy. In September 1993, the Japanese Government announced an additional yen 6.2 trillion program which it estimated would increase nominal GNP by 1.3 percent over the following twelve months. Since all these programs included elements which represented shifting of assets, as well as government lending which may simply replace private lending—rather than creation of new contributions to final demand—the actual impact is thought to be considerably less than the raw figures would indicate.

Overall, however, the fiscal stance of the Japanese Government may be said to have remained relatively tight since 1982, when it began to take steps to constrain the growth of government debt. The general government surplus (central and local

governments plus social insurance) has been in surplus since 1987, even though tax receipts have recently fallen off due to the recession. As of November 1993, a personal income tax cut was under discussion as both an economic stimulus and tax reform measure (to redress the relatively high direct tax burden on salaried workers). However, finance authorities remained opposed to any fiscal stimulus which involved the use of deficit-financing bonds (government debt to finance non-investment spending).

Beginning in mid-1991, monetary easing has also been applied. Six successive decreases in the Bank of Japan's official discount rate (ODR) brought that rate to 2.5 percent by February 1993. The seventh cut in the easing cycle, in September 1993, brought the ODR to a record low of 1.75 percent. Lending rates have also fallen, but corporate borrowing remains weak—partly due to lack of demand for funds in a recession, partly due to credit tightening by banks facing falling asset prices and a large-scale overhang of bad debt. Money supply growth remains very moderate, supported largely by Government disbursements through the fiscal packages mentioned above, but still represents improvement on the zero or negative figures for growth in the M2 plus certificate of deposit (CD) aggregate which were recorded from third quarter 1992 through first quarter 1993.

2. Exchange Rate Policies

Since 1990, the yen has been on an appreciating trend against the U.S. dollar, reversing its movement in 1988–90. Yen appreciation was particularly rapid in February–August 1993, when the nominal exchange rate went from Y120:$1 to almost Y100:$1 in six months' time. Post-1990 yen appreciation has had the effect of expanding Japan's exports and trade and current account surpluses in dollar terms.

In principle, Japan ended most foreign exchange controls in 1980, but numerous controls remain in practice. Japan coordinates economic policies (including exchange rate policy) with the United States and its other Group of Seven (G7) partners.

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, effectively reinforcing business practices that restrict competition and 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 need for comprehensive deregulation of the Japanese economy has been a key theme of the current Hosokawa administration which has set up an Economic Reform Research Council under the leadership of the Chairman of the Federation of Japanese Economic Organizations (Keidanren). The final report of this Council (Hiraiwa Report) was released on December 16, 1993. Although it offered broad proposals for economic reform, it was virtually devoid of specifics.

In the past, the United States addressed structural issues with Japan under the Structural Impediments Initiative (SII), launched in 1989. Progress was made in some areas. For example, the Government of Japan deregulated 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 anti-monopoly enforcement. In the area of land use, action was taken to eliminate tax preferences for agricultural land in major urban areas. In the most recent report issued in 1992, Japan made a number of new commitments in the areas of distribution, and exclusionary business practices.

A Framework Agreement was announced on July 10, 1993 by President Clinton and then-Prime Minister Miyazawa. The Framework provides for "an ongoing set of consultations anchored in bi-annual meetings between the President and Prime Minister." In addition to a joint global cooperation effort in such areas as the environment and technology, the two nations have agreed to concentrate on five areas or "baskets" initially in the Framework discussions: government procurement, regulatory reform and competitiveness, economic harmonization, implementation of existing agreements and other major sectors (autos and auto parts). Remaining issues under the SII process are being discussed under the Framework. These discussions will include, but not be limited to, such issues as enhanced competition policy, foreign direct investment, buyer/supplier relationships, reform of the regulatory proc-

ess and more transparent administrative procedures, as well as continued efforts to reform the distribution system, including import 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 been moving away from such industrial policy measures, partly in response to criticism of export-oriented policies by Japan's trading partners. The Japanese Government continues to promote high technology cooperation among firms and plays a direct role in organizing these efforts, using off-budget resources and small amounts of appropriated funds to contribute to investment projects and government-private sector efforts.

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

Over the past few years, the Government of Japan has removed most formal barriers to the import of goods and services. Import licenses, which are still technically required for all goods, are granted on a pro forma basis with limited exceptions (fish, leather goods and some agricultural products). Japan's average industrial tariff rate is one of the lowest in the world, at around two percent, and Japan has made further tariff reduction offers in the Uruguay Round Market Access negotiations. The successful conclusion of the Uruguay Round negotiations will further reduce trade barriers in a number of areas, such as agriculture (where Japan announced that it would lift its ban on rice imports), manufactured goods (where the United States has proposed the mutual elimination of tariffs for major industrial sectors), and the services sector.

U.S. and Japanese negotiators have concluded agreements over the past four years to improve access to Japan's market in the areas of supercomputers, commercial satellites, semiconductors, construction, wood products, paper, and government computer procurement. In addition, the Government of Japan agreed to ease rules on value-added telecommunications services, to strengthen copyright protection for U.S. music recordings, and to resolve disputes involving amorphous metals and machine tools. Discussion of market barriers in the areas in which there are existing bilateral arrangements continues under the Framework process. The Framework Agreement identifies three priority areas (government procurement, insurance, and autos and auto parts) for which there should be agreements on market access in place by February, 1994.

Tariffs and quotas are not the greatest current obstacles to selling into the Japanese market. Instead of tariffs and official discrimination against imports, American exporters, in areas ranging from glass to auto parts, face a number of less visible, but nonetheless real, barriers that raise costs and inhibit access. These include government red tape, government toleration of collusive business practices, exclusionary private business practices, an outdated and fragmented distribution system, and insular attitudes by both government officials and private businessmen.

Services: 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 construction services and goods (1988 and 1991), and easing restrictions on telecommunications services (International Value-Added Networks I, 1988; Cellular phones, 1989; International Value Added Networks II, 1990). In recent years, Japan has eased some restrictions on financial services, though there are remaining barriers in a wide range of these services. These remaining barriers are under discussion in the Framework. Foreign architectural design and construction firms continue to encounter difficulties in competing for construction contracts set by Japanese Government agencies. The 1988 Major Projects Arrangement established leaner and more transparent procedures for foreign bidders. In 1991, the arrangements were revised to improve the procedures. In reviews since that time, the United States has made a number of concrete suggestions to improve the operation of the MPA. Finally, in April 1993, USTR designated Japan under Title VII for discriminatory procurement practices in the public works procurement sector. Following the announcement in October that the Government was committed to fundamental reform of the bidding, the deadline for U.S. sanctions against Japan was postponed until January 20, 1994. In addition, despite partial liberalization of legal services in 1987, Japan maintains major 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 Government of Japan

established a study commission on the issue to assess the degree to which the restrictions on foreign lawyers obstruct free and fair trade. This commission has issued its report, which calls for minimal changes in the current system. It touches slightly on the partnership issue, but supports the continued ban on a foreign lawyer employing a Japanese lawyer. The U.S. and the rest of the foreign legal community are now studying the commission's proposal.

Government procurement: 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 foreign U.S. suppliers. 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. Government procurement is a priority area under the Framework, with the U.S. seeking specific agreements in the telecommunications and medical technology sectors.

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

Foreign investment: 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. At the same time, foreign direct investment in Japan is significantly lower than in other major G–7 nations. There are a number of factors behind this situation, including the legacy of many years of active Japanese government discouragement of foreign investment. The major problem, however, is the high cost of doing business in Japan which makes the rate of return on investments here far lower than other alternatives. The Government of Japan has taken some initial steps to provide incentives to foreign investors. This issue is also under discussion in the Framework.

The acquisition of existing Japanese companies is difficult due in part to cross-holding 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 roughly $15 billion that Japan has committed for official development assistance in 1993, slightly more than half has been earmarked for loan aid. In this area, Japan has virtually eliminated Japan-tied aid credits and now extends about 90 percent of its loan aid officially under untied terms. But U.S. exporters continue to face difficulties in competing due to (1) the use of Less Developed Country (LDC) untied aid, where bidding is only open to Japanese and LDC firms; (2) tied feasibility studies (provided by grant aid) for untied (loan aid) projects which result in project specifications more suited to Japanese than U.S. bidders; and (3), perennial lack of transparency of ODA policies and procedures. These programs are the subject of continued discussions with the OECD. Japan exempts exports from the three percent VAT-like consumption tax initiated in April 1989. This provision does not appear to have any significant impact on a manufacturer's decision to sell domestically or export.

7. Protection of U.S. Intellectual Property Rights

Japan is a party to the Bern, Paris and Universal Copyright Conventions and the Patent Cooperation Treaty. Japan's Intellectual Property Rights (IPR) regime affords national treatment to U.S. entities. Under the bilateral Framework Agreement's intellectual property working group, the two governments are seeking agreement by July 1994 on a range of patent, trademark, and trade secrets issues of concern to U.S. companies.

Patents: Average patent pendency in Japan is one of the longest among developed countries, averaging over five years from application to grant. 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 a 24 month-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.

Trademarks: 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.

Copyrights: The Agency for Cultural Affairs under the Japanese Ministry of Education has convened a panel of experts tasked with recommending how copyright protection now granted to computer software in Japan should be weakened to allow decompilation and reverse engineering. A decompilation right would damage many U.S. software companies by allowing Japanese companies to dissect U.S. software and take some of the creative elements that are protected under U.S. law. U.S. Trade Representative Kantor and Secretary of Commerce Brown have written to Japan's Ministers of Trade and Industry and Education expressing strong concern and urging that no revisions be made to weaken Japan's copyright law.

The Japanese have cited as a reason for this study two 1992 U.S. court cases and the EC Software Directive. The two U.S. cases allow decompilation only in very unusual circumstances and U.S. Government representatives have explained to Japanese officials that these cases are very limited in scope and precedental effect. A weakening of computer software protection in Japan would be likely to have an adverse effect on U.S. software companies active in Japan and would not be acceptable.

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

b. *The Right to Organize and Bargain Collectively.*—The right to organize, bargain and act collectively 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 for 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. These wage rates are sufficient to provide workers and their families with a decent living. 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		4,768
Total Manufacturing		11,920
Food & Kindred Products	666	
Chemicals and Allied Products	2,790	
Metals, Primary & Fabricated	225	
Machinery, except Electrical	3,540	
Electric & Electronic Equipment	1,327	
Transportation Equipment	1,573	
Other Manufacturing	1,799	
Wholesale Trade		5,424
Banking		200
Finance and Insurance		2,707
Services		584
Other Industries		609
TOTAL ALL INDUSTRIES		26,213

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

SOUTH KOREA

Key Economic Indicators

[Billions of Korean won unless otherwise noted]

	1991	1992	[1] 1993
Income, Production, and Employment:			
Real GDP (1985 prices) [2]	142,633	149,463	156,488
Real GDP Growth (pct.)	8.5	4.8	4.7
GDP (at current prices) [3]	208,201	231,727	256,058
By Sector:			
Agriculture/Forestry/Fisheries	16,566	17,682	N/A
Mining and Manufacturing	59,503	64,021	N/A
Electricity/Gas/Water	4,240	4,979	N/A
Construction	32,320	38,469	N/A
Financial/Real Estate/Business Services	32,320	38,469	N/A
Other Services	47,208	52,510	N/A
Government Services	16,043	18,939	N/A

Key Economic Indicators—Continued

[Billions of Korean won unless otherwise noted]

	1991	1992	[1]1993
Net Exports of Goods and Services	−5,290	−2,401	N/A
Real Per Capita GDP (000's of won at 1985 prices)	3,300	3,422	3,555
Labor Force (000's)	19,011	19,384	20,200
Unemployment Rate (pct.)	2.3	2.4	2.9
Money and Prices (annual percentage rate):			
Money Supply (M2)	18.6	18.4	19.0
Yield on Corp. Bonds (pct.)[3]	18.9	16.2	12.9
Personal Saving Rate[3]	28.2	26.9	N/A
Retail Inflation	9.3	6.2	5.1
Wholesale Inflation	4.7	2.2	1.5
Consumer Price Index (1990 base)	109.3	116.1	122.0
Average Exchange Rate (US$/1,000 WON)	1.363	1.280	1.245
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)[4]	71,870	76,632	82,800
Exports to U.S	18,559	18,090	18,200
Total Imports (CIF)[4]	81,525	81,775	84,900
Imports from U.S	18,525	18,287	17,500
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Debt[5]	39,100	42,800	45,000
Debt Service Payments	5,060	5,500	6,000
Good and FOREX Reserves	13,733	17,154	20,000
Trade Balance[4] (cust. basis)	−9,655	−5,143	−2,100
Balance with U.S. (cust. basis)	−335	−197	700

N/A—Not available.
[1] 1993 Figures are all estimates based on first half data.
[2] GDP at factor cost.
[3] Figures are average annual interest rates.
[4] Merchandise trade.
[5] Includes non-guaranteed private debt.

1. General Policy Framework

The South Korean government's economic policies have traditionally emphasized rapid export-led development, protection of domestic industries, and the reduction of the Republic of Korea's large external debt. Government intervention in the economy to promote these objectives has been pervasive throughout the post-Korean war era. Restrictions on foreign participation in the economy through trade and investment have been common. In the latter part of the 1980s, removal of explicit import prohibitions and steadily increasing domestic demand began to push Korea toward a more mature stage of economic development. Some Korean policy-makers recognize the need to deregulate and modernize, but are still influenced by the dirigism of past governments.

Korea's economy is undergoing a difficult transition period characterized by growth at comparatively low levels and policy uncertainty. After a disappointing rise of 4.7 percent in 1992, real GNP in first half 1993 grew by a relatively meager 3.8 percent over the year before. Businesses are concerned that economic activity in the second half will be weakened by the government's "real name" decree outlawing alias bank accounts. That act, though conducive to long term efficiency, will squeeze credit for small businesses unless they can rapidly shift to institutional borrowing. Real GNP growth in 1993 will roughly match last year's level of 4.7 percent, and is expected to be followed by a moderate acceleration to 6.3 percent in 1994. By contrast, Korea experienced double-digit real growth in the 1986–1991 period.

President Kim is hoping to jump-start economic growth. Stabilization programs enacted in early 1992 by ex-president Roh Tae Woo had lowered Korea's inflation rate and narrowed the current account deficit by the time President Kim assumed office in February 1993. Although several key advisors urged continued stabilization, the new President, alarmed by sharp declines in investment spending, decided to ease policy. His "100 days" plan lowered interest rates, increased credit lines for

business, and promised accelerated spending on public investment. The draft FY1994 budget endorsed by the government in late-September 1993 proposes a 13.7 percent general spending increase over the previous year, with large expenditure increases planned for public investment, research and development, and small business support. Although nominally balanced, revenue shortfalls will probably result in a moderate deficit of about one percent of GNP, financed partly by bond sales and partly by money creation. To promote growth, the Bank of Korea has permitted the money supply to rise four to five percentage points beyond its original 1993 target of 17 percent.

Korea's current account deficit narrowed to about $1.0 billion in first half 1993 from $4.5 billion in first half 1992. This remarkable shrinkage was derived primarily from trade flows, as capital goods imports fell due to weak domestic facility investment and exports, aided by the depreciation of the won against the yen during 1993, held up. Korea has succeeded during the 1990s in diversifying away from slow growth OECD markets in favor of China, the ASEAN nations and Latin America. The current account deficit will fall to $770 million in 1993, and could shift into surplus the following year. The general slowdown in the Korean economy is affecting demand for U.S. products. U.S. exports to Korea declined in 1992 by $600 million, and will decline another $787 million in 1993. The U.S. bilateral trade balance with Korea, based on Korean customs data, is estimated to shift from a surplus of about $200 million in 1992 to a $700 million deficit in 1993.

Korea has halved its inflation rate since the start of the decade, and consumer prices in August 1993 rose only 4.4 percent over 1992 levels. The government is appealing to businesses to avoid price hikes in 1993 in order to share the pain of adjustment. Wage demands, which intensified over the last few years with the eclipse of authoritarian rule, began to moderate in 1993, supporting a forecast of contained inflation. Government incomes policy for 1993 calls for a freeze on civil service salaries and private sector wage increases of 4.7 to 8.9 percent depending on firm size. In fact, according to the Korean Employers' Federation, wage increases at the nation's top thirty conglomerates averaged just 3.71 percent at end August 1993, about one percentage point below the guideline.

Much uncertainty surrounds President Kim's long range economic policies. The government's five year plan released in early July 1993 foresees sustained annual real GNP growth of seven percent, raising per capita incomes from $6,800 in 1992 to $14,000 by 1998, and promises a "new Korea" of liberalized domestic and international policies. The spirit and scope of the plan are ambitious and encouraging, but details are lacking and its implementation schedule is back-loaded toward the end of the period. The language of the plan suggests that certain markets, like foreign exchange, may be subject to regulation even after 1998. Also, the bureaucracy can and often does frustrate efforts to implement change. While many of Korea's leaders recognize that reform is essential for a nation that aspires to OECD membership in the mid-1990s, the ministries and the industrial and agrarian interests which derive power and protection from the old system will undoubtedly fight deregulation.

2. Exchange Rate Policies

The won fell gradually against the dollar in 1993. Between January and September 1993 the won depreciated about 2.8 percent against the dollar, closing at 811.1 won per dollar on September 21. The real, effective devaluation of the won during the same period was about six percent. On the plus side for U.S. exporters, the sharp appreciation of the yen against the dollar should help U.S. capital goods suppliers challenge Japan's position as the dominant equipment supplier to Korea.

The U.S. Treasury reported to the U.S. Congress in November 1993 that it found no evidence of direct exchange rate manipulation by the Korean authorities to gain competitive advantage. However, the Treasury noted that stringent foreign exchange and capital controls distort trade and investment flows and frustrate the emergence of a truly market-determined exchange rate.

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 South Korean economy 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

tax audits and a tight grip on the financial sector 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 the Republic of Korea has eliminated most explicit import prohibitions outside of the agricultural area. Many of the problems U.S. exporters now experience in South Korea are rooted in the maze of regulations which make up complicated licensing requirements, rules for inspection and approval of imported goods, country of origin marking requirements, and other standards often inconsistent with international norms.

January 1992 marked the beginning of the Presidents' Economic Initiative (PEI), a bilateral cooperative effort to eliminate generic barriers in the areas of standards and rule-making, customs and import clearance, technology, and investment. The PEI lists of recommendations in these three critical areas built on the results of the 1989 Super 301 Agreements and addressed key doing-business concerns of U.S. firms. After more than a year of discussions, the PEI working groups issued reports on implementation in June 1993. Significant progress was made by Korea in carrying out the recommendations in all areas except investment, but both sides recognized the need for additional work on generic issues in general and on investment in particular. Also, both parties agreed that the cooperative format had been a success and wanted to continue talking.

In June 1993, the undersecretary-level Economic Sub-Cabinet launched the Dialogue for Economic Cooperation (DEC), a year-long intensive effort to address systemic issues of deregulation and economic cooperation. The DEC was endorsed by Presidents Clinton and Kim during their July 1993 meetings in Seoul. The DEC has agreed to establish counterpart groups to examine specific problems in the areas of taxation, administrative procedures, import clearance, and investment. Other groups may be formed later. These groups will report at the next Economic Subcabinet meeting in June of 1994. Both governments expect that the DEC will result in an easing of regulatory barriers in the two economies and expanded business opportunities.

4. Debt Management Policies

Korea's gross foreign debt will reach an estimated $45 billion by the end of 1993, while debt service as a share of goods and service exports remains in the comfortable six percent range. Net foreign debt, taking into account Korea's approximate $35 billion in overseas assets, was just under $10 billion at the end of June 1993.

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 which included a four-year phaseout period agreed upon with World Bank officials.

5. Significant Barriers to U.S. Exports

As formal barriers to imports have fallen, Korea has raised new, more subtle, secondary barriers that effectively prevent the widespread liberalization envisioned under the major trade initiatives of the late 1980s. Korean tariff rates remain higher than the average rates of developing countries. After a one-year delay in 1990, Seoul has continued its five-year tariff reduction plan. As of January 1994, Korean tariff rates will average 7.9 percent. However, significant peaks will remain in the agricultural area, particularly in products of major interest to the United States.

Korean safeguard regulations permit the government to impcse special "emergency tariffs" of up to 100 percent on imported goods to protect domestic industry. Seoul also uses "adjustment tariffs" to cushion the impact of liberalization of import restrictions. In 1993 Korea removed canned pork from the list of U.S. products affected by emergency tariffs. Batteries and glass products remain on the list.

One of the most pervasive remaining formal barriers to U.S. exports to 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; permission is rarely granted. U.S. firms estimate that they could increase exports by up to one third if Korean firms were allowed to buy on credit.

Licenses are required for all imports to Korea, but they are usually granted automatically, except for prohibited or regulated goods. These goods now include around 150 mostly agricultural products. Under Korea's agreement to phase out its GATT balance of payments (BOP) restrictions, the government is committed progressively to eliminate most of these import restrictions by 1997. To date, BOP liberalization

of agricultural products has been largely limited to products with little import potential. The final tranche of products for liberalization will be announced in March 1994.

Korea agreed in the Uruguay Round to eliminate balance of payments restrictions on beef by December 31, 2000. A July 1993 U.S.-Korea bilateral beef agreement outlines minimum market access levels for 1993 through 1995. Under this agreement, operation of the current "simultaneous-buy-sell-system" (SBS) portion of the market will be greatly improved by the prohibition of the active involvement of the Korean government. The number of SBS participants will also increase during the course of the agreement to include non-tourist hotels, meat processors, and many supermarkets, as well as the tourist hotels and others who currently have access to the system.

Standards, licensing, registration, and certification requirements effectively limit U.S. exporters' access to the Korean market. Unreasonably tough and arbitrarily-enforced standards and labelling requirements have adversely affected U.S. exports of a wide variety of consumer products, including appliances and electronic equipment. Registration requirements for products such as chemicals and cosmetics hamper entry into the market and often require U.S. firms to release detailed proprietary information on the composition of their products.

On January 1, 1993 a Prime Ministerial Decree took effect, outlining improved procedures for standards and rule-making, including a requirement for public notice, minimum comment periods, and an adjustment period prior to implementation. However, the decree does not have the force of law. Seoul has said that it plans to introduce a full-fledged Administrative Procedures Act in 1995. Administrative procedures is one of the principal topics of discussion in the DEC. The United States hopes to influence the plans for the Administrative Procedures Act and to have an impact on intermediate regulations that are proposed and implemented between now and 1995.

Investment in most professional services remains restricted for foreign firms in Korea.

The significant barriers to U.S. investment in Korea are one of the key areas of discussion in the DEC. Korea 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-company 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 pending legislation would ease the problem somewhat. 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 investment 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.

The government has done little to educate a public accustomed to a closed domestic market on the benefits of imports, particularly to consumers. Most Koreans have been taught that imports are, by definition, luxury goods and somehow unpatriotic. 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 1993, foreign firms in the recently-liberalized cosmetics sector simultaneously were undergoing customs valuation audits and investigation of their import procedures. Numerous press articles negatively highlighted the increase in sales of foreign cosmetics and the amount of floor space devoted to their display by department stores. 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 was an important topic under the Presidents' Economic Initiative in 1992. Korea is now implementing PEI recommendations for improvement of customs and import clearance procedures and is building on them in the DEC. A new customs subgroup has been established to deal with the long term implementation of improvements in the Ko-

rean import clearance system. The subgroup will contribute to the final DEC report scheduled for the spring of 1994.

Korea has agreed to join the new GATT Government Procurement Code. For Korea, the Code will be effective January 1, 1997.

6. Export Subsidies Policies

Since the early 1960s, Korea has eliminated several indirect export subsidies, including the special depreciation allowance for large exporting firms and overseas construction firms. In 1988, Korea terminated the provision of export loans to large firms not affiliated with business conglomerates. However, in response to Korea's growing trade deficits, the government resumed the provision of short-term export loans to large exporting firms in April 1992.

This measure was 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 for costs related to the promotion of overseas markets; unit export financial loans; and special depreciation allowances for small and medium exporters. Seoul also maintains 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. Korea is a signatory to the GATT code on subsidies and countervailing duties.

7. Protection of U.S. Intellectual Property

In February 1993, Korea launched a new comprehensive plan to strengthen intellectual property rights (IPR) protection and the enforcement of IPR laws. The so-called special enforcement program was originally scheduled to run three months, but was later extended to ten months. It included the establishment of an information network on cases and twice-weekly raids on markets. Key trouble areas, such as the electronics markets in Seoul and Pusan, were targeted more often. Korean authorities gave high priority to the prosecution of IPR-related cases. For the first time, IPR offenders routinely spent time in jail and paid fines. The government also announced plans to increase the penalties for copyright infringement and to amend the customs law to strengthen IPR enforcement for imports and exports of copyright and trademark goods.

As a result of this concentrated push, the U.S. government elected not to upgrade Korea to "priority foreign country" status in the April 1993 Special 301 review. However, Korea was retained on the "priority watch list" and scheduled for an out-of-cycle review. The American business community, encouraged by the new signs of a serious approach to IPR by the Korean government, supported the U.S. government's decision. The out-of-cycle review was conducted in the Fall of 1993; Korea remained on the "priority watch list."

Patents: Patents are one area that the new campaign has not affected. 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 because they specify that a patent can be subject to compulsory licensing if the patent is not worked.

Trademarks: Trademark violations typically have been the most visible area of infringement and were the prime target of the 1993 crackdown, particularly since Korean law allows prosecutors or police to investigate trademark infringement cases without the filing of a formal complaint. Problems remain with the definition of "famous marks" in Korea. Reviews by the Korean authorities charged with deciding whether a trademark has famous mark status have resulted in inconsistent decisions. Three dimensional characters still have no protection at all.

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 1962 to 1985, and all pre-1987 sound and video recordings.

Following the 1986 agreement, Korea had some immediate success in curbing pirating activities, particularly in the area of printed materials, through the use of tax and trademark infringement laws. However, until the advent of the 1993 special enforcement campaign, relatively little attention was given to the problem of piracy

in the area of sound recordings. One of the chief successes of the new IPR regime has been the establishment of a mechanism for reviewing registration applications that tracks the ownership of both pre- and post-1987 works. The continued effective management of the registration system for these works—and follow-up in order to destroy illegally-produced or imported copies—will be key concerns in future evaluations of Korea's IPR regime.

Software piracy continues to be widespread. The Korean authorities have conducted raids on retailers and wholesalers, but have given relatively low priority to large end-users. The few raids that have been conducted on training schools and other end-users have sparked significant purchase orders to legitimate vendors.

Korea agreed in 1993 to extend copyright protection to textile designs. Korean officials began to work with local textile manufacturers to develop mechanisms for tracking rights ownership and protecting Korean producers from liability.

A key complaint of U.S. firms is that 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 maintain that this requirement causes delays which allow the alleged violator to remove evidence from the premises before the authorities arrive. U.S. companies have welcomed the proposal to significantly increase the penalties for copyright infringement. The Korean government currently has no plans to change its complaint requirement.

New technologies: In November 1992, the National Assembly passed legislation to extend IPR protection to semiconductor mask works. The legislation is currently under review by the U.S. Government. If the Korean law is compatible with U.S. law, Korea could seek reciprocal protection for its chips under U.S. law, provided it demonstrates that no "unauthorized duplication" is occurring. Preliminary reviews indicated that the compulsory licensing provisions of the Korean law may prevent reciprocal recognition.

Legislation to protect trade secrets took effect in December 1992. A Prime Ministerial decree effective January 1, 1993 mandates the handling of trade secrets, including business confidential 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.

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.

8. Worker Rights

a. *The Right of Association.*—The Constitution gives workers, with the exception of most public service employees and teachers, the right to free association. There are, however, blue collar public sector unions in railways, telecommunications, the postal system, and the national medical center. The trade union law specifies that only one union is permitted at each place of work, and all unions are required to notify the authorities when formed or dissolved.

In the past the government did not formally recognize labor federations which were not part of, nor affiliated with, the country's legally recognized labor confederation—the Federation of Korean Trade Unions (FKTU). In 1993, however, the Labor Ministry officially recognized independent white collar federations representing hospital workers, journalists, financial workers, and white collar employees in construction companies and government research institutes. In practice, labor federations not formally recognized by the Labor Ministry existed and worked without government interference, except if the authorities considered their involvement in labor disputes harmful to the nation.

No minimum number of members is required to form a union, and unions may be formed without a vote of the full, prospective membership. Korea's election and labor laws forbid unions from donating money to political parties or participating in election campaigns. However, trade unionists have circumvented the ban by temporarily resigning their union posts and running for office on the ticket of a political party or as an independent.

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 ten day cooling-off period before a strike may legally begin. Overall membership in Korean labor unions has been declining over the last several

years largely because the explosion in labor organizing in 1987–89 left the movement divided but well compensated, and worker rights significantly improved.

Since July 1991, South Korea has been suspended from U.S. Overseas Private Investment Corporation (OPIC) insurance programs because of a lack of significant progress in worker rights.

b. *The Right to Organize and Bargain Collectively.*—The Constitution and the Trade Union Law guarantee the autonomous right of workers to enjoy collective bargaining and collective action. Although the trade union law is ambiguous, the authorities, backed up by the courts, have ruled that union members cannot reject collective bargaining agreements (CBAS) signed by management and labor negotiators. Nonetheless, union members continue to reject CBAS agreed to by labor and management negotiators. Extensive collective bargaining is practiced. Korea's labor laws do not extend the right to bargain collectively to government employees, including employees of state or public-run enterprises and defense industries.

Korea has no independent system of labor courts. The Central and Local Labor Commissions form a semiautonomous agency of the Ministry of Labor that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. The Law authorizes labor commissions to start conciliation and mediation of labor disputes after, not before, negotiations breakdown and the two sides are locked into their positions. Labor-management antagonism remains a serious problem, and some major employers remain strongly anti-union.

U.S. executives sometimes complain that Korean law is biased toward labor, citing the government's reluctance to enforce management rights during a spate of strikes at foreign-owned banks in the Summer and Fall of 1993. However, in early November government arbitrators did rule in favor of a major U.S. bank, thereby ending a prolonged strike.

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

d. *Minimum Age for Employment of Children.*—The Labor Standards Law prohibits the employment of persons under the age of 13 without a special employment certificate from the Ministry of Labor. Because education is compulsory until the age of 13, few special employment certificates are issued for full-time employment. Some children are allowed to do part-time jobs such as selling newspapers. In order to gain employment, children under 18 must have written approval from their parents or guardians. Employers may require minors to work only a reduced number of overtime hours and are prohibited from employing them at night without special permission from the Ministry of Labor.

e. *Acceptable Conditions of Work.*—Korea implemented a minimum wage law in 1988. The minimum wage level is reviewed annually. Companies with fewer than ten employees are exempt from this law, and some still pay below-minimum wages. The Labor Standards and Industrial Safety and Health Laws provide for a maximum 56-hour workweek. Amendments to the Labor Standards Law passed in March 1989 brought the maximum regular workweek down to 44 hours. According to the Ministry of Labor, the average Korean worker worked 47.5 hours per week, including overtime, in 1992.

The government sets health and safety standards, but South Korea suffers from unusually high accident rates. The Ministry of Labor employs few inspectors, and its standards are not effectively enforced.

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.-owned plants are for the most part better than at Korean plants.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount
Petroleum	67
Total Manufacturing	1,140

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Food & Kindred Products	240	
Chemicals and Allied Products	215	
Metals, Primary & Fabricated	33	
Machinery, except Electrical	38	
Electric & Electronic Equipment	176	
Transportation Equipment	53	
Other Manufacturing	386	
Wholesale Trade		276
Banking		1,122
Finance and Insurance		165
Services		25
Other Industries		−17
TOTAL ALL INDUSTRIES		2,779

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

MALAYSIA

Key Economic Indicators

[Millions of Malaysian ringgit unless otherwise noted]

	1991	1992	[1] 1993
Income, Production, and Employment:			
GNP (Current prices)	123,548	140,267	159,043
Real GNP Growth (pct.)	11.5	13.5	13.4
Real GDP (1978 prices)	86,332	93,071	100,475
Real GDP Growth (pct.)	8.7	7.8	8.0
By Sector:			
Agriculture	14,795	15,432	15,895
Manufacturing	24,307	26,859	30,216
Mining and Petroleum	7,952	8,088	7,991
Utilities	1,697	1,931	2,153
Construction	3,250	3,615	4,013
Whole and retail trade	10,091	11,165	12,315
Financial Services	8,733	9,607	10,664
Government Services	8,964	9,466	9,892
Other Services	1,831	1,977	2,125
Real Per Cap. GDP ('78 bps)	4,747	5,002	5,275
Labor Force (000s)	7,247	7,441	7,646
Unemployment Rate (pct.)	4.3	4.1	3.0
Money and Prices:			
Money Supply (M2) [2]	96,092	114,481	122,316
Prime Rate (pct.) [2]	9.5	9.5	8.2
Klibor (12 month) [2]	8.78	8.05	6.57
Nat. Savings/GNP (pct.)	28.0	32.6	35.4
Investment/GNP (pct.)	25.3	34.2	22.8
Inflation (CPI)	4.4	4.7	3.8
Exchange Rate (avg. MR/$)	2.75	2.55	2.57
Balance of Payments and Trade:			
Merchandise Exports	92,220	100,910	116,979
Exports to U.S. (FAS) [3]	16,780	20,984	23,400
Merchandise Imports	90,771	92,311	103,752
Imports from U.S. (CV) [3]	10,725	11,122	14,700

Key Economic Indicators—Continued

[Millions of Malaysian ringgit unless otherwise noted]

	1991	1992	[1] 1993
Services (Net)	−13,058	−12,958	−12,876
Current Account	−11,507	−4,200	511
Merchandise Trade Balance	1,449	8,599	13,227
Trade Balance With U.S	6,055	9,862	8,700
Aid from U.S	1.5	1.5	0
Foreign Debt	43,787	42,661	47,192
—Public Sector	37,075	32,323	34,614
—Private Sector	6,712	10,338	12,578
Debt Service Payments [4]	7,166	4,742	4,541
Debt Service Ratio (pct.)	6.2	5.7	5.2
Official Net Reserves	30,444	47,194	57,000

[1] Malaysian government estimates.
[2] 1993 Data to October only.
[3] Embassy estimates based on DOC data.
[4] Excluding prepayments.

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy. 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. Real GDP growth averaged six to eight percent from 1964–1984. In 1985–1986, the collapse of commodity prices led to Malaysia's worst recession since independence with real GDP growth a negative one percent and nominal GNP falling 11 percent. Since then, the economy has rebounded, led by strong growth in both foreign and domestic investment and manufactured goods exports with real GDP growing at an average of over eight percent. In 1994, real GDP growth is expected to be around 8.2 percent. Malaysia's 1994 federal budget, tabled in Parliament October 29, 1993, introduced a number of significant tariff and fiscal policy changes, which took effect immediately.

The government plays a diminishing role in the Malaysian 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 equity stakes (generally minority stakes) in a wide range of domestic companies. 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 privatization of many entities, including telecommunications, the national electricity company, the national airline and the government shipping firm. The Penang Port, the government Medical Stores and the government motor pool have already been earmarked for privatization.

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

Fiscal Policy: The government operates a prudent and conservative fiscal policy, with a surplus in its operating account. With the intention of improving the investment climate, the government reduced the corporate income tax by two percent from 34 percent to 32 percent in the 1994 budget.

This tax will be further reduced to 30 percent the following year. In addition, the government extended and increased the rate of reinvestment allowance from 40 percent to 50 percent for all companies for an indefinite period.

Monetary Policy: Malaysian monetary policy is aimed at controlling price increases while providing adequate liquidity to stimulate economic growth. Monetary aggregates are controlled by the Central Bank through its influence over interest rates in the banking sector, open market operations and, occasionally, changes in reserve requirements.

2. Exchange Rate Policy

Malaysia has a substantially open foreign exchange regime. The Malaysian currency, the ringgit (MR), 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 in ringgit. It generally tracks the ringgit's value against a trade-weighted basket of currencies in which the U.S. dollar has a large weighting. Bank Negara's stated 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 (MR2.70–MR2.75 per US$), the ringgit rose rapidly during the first two months of 1992 to MR2.50 per US$, and then again settled in a narrow range around 2.55.

Payments, including repatriation of capital and remittance of profits, are freely permitted. Payments to countries outside Malaysia may be made in any foreign currency other than the Israeli shekel. No permission is required for payments in foreign currency up to MR10,000 (approximately US$3,984). Individual foreign exchange transactions above RM10,000 require an exchange control license. For transactions up to RM10 million (US$3.9 million), the license is obtained upon completion of a simple reporting form. This form can be 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 MR10 million requires the approval of the controller.

3. Structural Policies

Pricing policies: Most prices in Malaysia's economy are market-determined but the government controls prices of some key goods, notably fuel, public utilities, motor vehicles, rice, flour, sugar and tobacco. Tariffs overall average about ten percent on a trade weighted basis and import licenses are required only for a small range of sensitive items. In 1993, the federal government lowered or eliminated tariffs on over 600 items in an attempt to defuse domestic inflation, and will take similar action for the same reason on over 500 items in 1994. In the agricultural sector, however, restrictive tariffs and non-tariff barriers distort trade to a certain extent. 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 controlled by the government via the issuance of import licenses.

Tax policies: Income taxes, both corporate and individual, are the largest single source of revenue for the government accounting for 39.5 percent of government revenue in 1993. Indirect taxes, comprising export and import duties, excise taxes, sales taxes, service taxes and other taxes accounted for 35 percent of government revenue in 1993. The remainder of government revenue comes largely from profits of state-owned enterprises and the petroleum tax. As of 1994, the government will reduce the income tax rate on petroleum companies from 45 to 40 percent, and lower the export tax on crude oil from 25 to 20 percent. 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. However, the government stepped up efforts in 1993 to fine domestic producers that evade sales taxes.

Regulatory policies: The government encourages foreign and local private investment. 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 MR50 million—about US$20 million—in foreign-funded assets), and does not produce items that compete with those now 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. Since the mid-1980s foreign investors have been able to buy a maximum of 30 percent equity in firms in the insurance and banking sectors.

4. Debt Management Policies

Malaysia has one of the best foreign debt profiles in the non-industrial world. Malaysia's medium- and long-term foreign debt is expected to stand at MR47.2 billion (US$18.7 billion) at the end of 1993, about 28.3 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross exports in 1986 to 5.7 percent in 1992 and is expected to decline to 5.2 percent by the end of 1993.

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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 MR50 (US$20) per kilogram, plus five percent ad valorem. While this policy reduces significantly leaf imports, the high tariffs appear to have the greatest impact on the 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 1992, 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. In 1993, the government appears to have relaxed its quota as cigarette manufacturers received approval for licenses to import all the tobacco they requested—about 2.92 million kilograms. Cigarettes are taxed at a rate of MR162 ($64.8) per kilogram.

Heavy import duties on certain high value food products: Duties for processed and high value products, such as canned fruit, snack foods, and many other processed foods, range between 20 and 30 percent. In the 1994 budget, import duties on fresh fruit and food items are reduced to between 10 and 30 percent.

High import duties on alcoholic beverages: The tariffs on all alcoholic beverages remain unchanged in the 1994 budget (after sharp increases in the 1993 budget). Duties of wine and beer remain at MR228 (US$91.2) per decaliter and MR74 (US$29.6) per decaliter respectively.

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. Some foodstuffs are exempted.

Ban on imports of chicken parts: In 1983, the government effectively closed Peninsular Malaysia to imports of chicken parts by ceasing to issue veterinary import permits. The ban was implemented because the European Economic Community allegedly was dumping chicken parts into the Malaysian market. Until January of 1991, the East Malaysian states of Sabah and Sarawak maintained separate import regimes for poultry products which permitted the import of U.S. chicken. 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 Malaysia now exports relatively large quantities of live poultry and poultry meat to countries such as Singapore and Japan.

Discriminatory rice import policy: Because subsidized local production satisfies only part of domestic demand, the National Rice Authority (LPN) imports substantial quantities of rice. LPN is also the sole legal importer of rice. Purchases generally are made on the government-to-government basis characteristic of some other Asian countries, notably Thailand. This government-to-government transaction structure places private U.S. suppliers at a considerable disadvantage. A proposal to "corporatize" LPN is still being considered after years of debate.

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 non-tariff barriers.

Services 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. However, wholly-owned U.S. travel agencies, air courier services, motion picture and record distribution companies are permitted.

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

Standards: Malaysia has extensive standards and labelling requirements, but these appear to be implemented in an objective, nondiscriminatory fashion. Food product labels must provide ingredients, expiration dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of Inter-

national 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 counter-trade provisions on government tenders above MR1 million. Below MR1 million, counter-trade is welcomed and even encouraged, but not required. (Most government tenders require that counter-trade be offered as an alternative.) Incentives exist for local procurement. Many smaller civil construction projects (MR50 million or less) are restricted to local firms.

6. Export Subsidy 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 seven percent. The government offers low-cost (subsidized) export credit schemes designed for developing countries importing Malaysian palm oil. So far, only Pakistan and Algeria have signed agreements for credit facilities of $150 million and $50 million, respectively.

Malaysia also provides tax incentives to exporters, including double deduction for expenses for:

—overseas advertising and travel;
—supply of free samples abroad;
—promotion of exports;
—maintaining sales offices overseas; and,
—export market research.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization and, as of October 1, 1990, the Bern Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property.

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

8. Worker Rights

a. *The Right of Association.*—Unions may organize work places, 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. Strikes are legal and relatively few (12 strikes in the first half of 1993). Government policy limits the formation of unions in the electronics sector to in-house unions.

In 1993 the AFL–CIO filed a petition to remove GSP benefits from Malaysia. Issues raised in the petition are being evaluated in light of information provided by the Government of Malaysia in order to assess whether a full review is warranted. As yet, no determination has been made on whether the petition will be accepted.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is the norm in Malaysian industries where workers are organized. Malaysia's system of conciliation and arbitration seeks to promote negotiation and settlement of issues without industrial action. Malaysian law, especially the Industrial Relations Act, ef-

fectively 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 five 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 International Labor Organization (ILO) Convention 29 prohibiting forced or compulsory labor. Malaysia has effective legal sanctions against such abuses. The ILO has in the past criticized 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 six hours per day, more than six days per week, or at night.

e. *Acceptable Conditions of Work.*—The Employment Act of 1955 sets working conditions, 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. By local standards, Malaysian wages and benefits provide a decent standard of living for workers and their families. 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. Employees at both companies are represented by the National Union of Petroleum and Chemical Industry Workers (NUPCIW), which has negotiated collective agreements with management. Some EPMI employees have broken away from the NUPCIW and formed a separate in-house union. Pay and benefits at both companies are well above the Malaysian norm.

The second largest concentration of American investment in Malaysia is in the electronics sector, especially the manufacture of components, such as semiconductor chips and various discrete devices. (Electronic components are Malaysia's largest single manufactured export.) Wages and benefits are among the best in Malaysian manufacturing. Fifteen American electronic components manufacturers operate 19 plants in Malaysia, employing more than 37,000 Malaysian workers. None of the American-owned electronics plants is unionized.

Although there is no legal prohibition against organizing unions in the electronics industry, government policy effectively discouraged any unionization in this sector until 1988. Malaysian trade union law limits a union to organizing workers in a single industry or related industry. The Director General of Trade Unions ruled in the 1970s that the Electrical Industry Workers Union (EIWU) could not organize workers in the electronics sector, as the two industries are different. Other attempts to organize a national union for the electronics industry failed on similar grounds during the 1980s.

In September 1988, the government announced that it would permit in-house unions to be organized in the electronics sector. A National Electronics Industry Workers Union (NEIWU) was formed, but was denied registration on the grounds that it sought to represent workers in both the electronics and electrical industries. The government registered several in-house unions in the electronics sector during the late 1980s and early 1990s. At present, workers at six non-American electronics companies are represented by in-house unions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		513
Total Manufacturing		747
Food & Kindred Products	9	
Chemicals and Allied Products	77	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	−125	
Electric & Electronic Equipment	654	
Transportation Equipment	0	
Other Manufacturing	126	
Wholesale Trade		106
Banking		91
Finance and Insurance		233
Services		1
Other Industries		23
TOTAL ALL INDUSTRIES		1,714

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

NEW ZEALAND

Key Economic Indicators

[Millions of NZ dollars unless otherwise noted]

	1991	1992	[1] 1993
Income, Production, and Employment:			
Real GDP (1983 prices)	35,615	34,893	35,372
Real GDP growth rate (percent)	0.2	−2.0	1.4
Agriculture	16.9	−5.1	0.0
Fishing/Hunting/Forestry/Mining	−1.7	8.9	−0.4
Manufacturing	−5.0	−2.8	6.5
Electricity/Gas/Water	1.0	1.8	−5.4
Construction	−6.8	−23.1	2.4
Trade/Restaurants/Hotels	−1.5	0.0	3.5
Owner-occupied Dwellings	2.2	1.7	1.5
Transport, Communications, and Business and Personal Services	0.7	1.4	3.3
General Government Services	−1.8	1.6	0.0
Net Exports of Goods and Services	272	2,110	1,649
Real Per Capita GDP (1983 NZ$)	10,419	10,100	10,123
Labor Force (000's)	1,632	1,641	1,643
Unemployment Rate (percent)	9.9	11.1	10.2
Money and Prices: [1]			
Money Supply (M2)	23,729	25,190	24,518
Base Lending Rate	14.9	11.8	11.0
Personal Saving Rate [2]	3.0	4.7	4.0
Investment Rate (gross fixed cap. form./GDP)	27.0	23.1	24.1
Consumer Price Index (December 1988 equals 100)	113.1	114.0	115.1
Producer Price Index (final quarter 1982 = 100)	170.7	172.8	177.2
Exchange Rate (ann. avg. NZ$ per US$)	1.68	1.78	1.88
Balance of Payments and Trade: [3]			
Total Exports FOB	15,768	17,891	18,981

Key Economic Indicators—Continued

[Millions of NZ dollars unless otherwise noted]

	1991	1992	[1] 1993
Exports to U.S	2,047	2,295	2,252
Total Imports VFD[4]	14,051	14,215	15,980
Imports from U.S	2,413	2,597	2,966
Aid Receipts	0	0	0
External Public Debt	28,177	27,790	26,389
Interest on Ext. Public Debt	1,692	1,691	1,496
Gold and Forex Reserves	5,990	5,466	6,201
Trade Balance	1,717	3,676	3,001
Balance with U.S	−366	−302	−714

[1] Reporting year ending March 31 (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] Estimates by N.Z. Institute of Economic Research.
[3] Fiscal year ending June 30. 1993 data is provisional.
[4] "Value For Duty," equivalent to "Customs Value" (cv) in U.S. statistics.

1. General Policy Framework

Historically, the engine for growth in New Zealand was pastoral agriculture, particularly the export of lamb and mutton , 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 1970's and early 1980's, 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 broad-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-1970's balance of payments problems led the government to turn to export incentive schemes to boost manufacturing.

In general, the performance of the New Zealand economy was lackluster from the mid-1950's until the mid-1980's. New Zealand fell from eighth in the world for per capita GDP in 1955 to twenty-second in 1985. GDP per capita grew less than one percent per annum on average for the 1965–87 period. While high employment was achieved, it was accompanied by high inflation, distortions in the allocation of resources, and chronic balance of payments problems. In 1984, the newly-elected Labour Party government embarked on a program of deregulation and structural change aimed at unwinding the previous policies of protectionism and excessive government intervention. The program included selling off and privatizing NZ$9 billion in state assets. In spite of voter opposition, the program began auspiciously. However, by 1988 opposition became so fierce that the Labour Party leadership withdrew support for the efforts of Finance Minister Roger Douglas, the main architect of reform, leading to his departure at the end of the year. While some progress continued, internal divisions in the party led to two changes of leadership and to defeat by the National Party in October 1990.

The change of direction introduced by the Labour Party, however, was maintained by the National Party government. After the November 6, 1993 general elections, which the National Party won by a very slim majority, one of the driving forces in the government's economic liberalization, Finance Minister Richardson, was replaced in a cabinet reshuffle. Her departure may affect the pace of future economic reform, but is not expected to alter the program's overall direction. To date, the markets have reacted accordingly.

The Labour government reduced the fiscal deficit from 6.8 percent of GDP in FY1984 to 1.2 percent in FY1990. However, at the time the National Party assumed office, burgeoning welfare expenditures threatened to rapidly reverse this progress. With no change in fiscal policy, the deficit was projected to grow to 4.9 percent of GDP in FY1992 and to reach 6.3 percent of GDP in FY1994. In December 1990, the government introduced an economic and social initiative as the first step in tackling this problem. The main elements of that package were industrial relations legislation and measures to better target welfare assistance. The FY1992 budget introduced in July 1991 extended that process to retirement benefits and introduced partial user charges for health care and education. The FY1993 and FY1994 budgets

introduced in July 1992 and 1993 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 about 37 percent of GDP in FY1993. A further reduction to 35 percent of GDP is expected by FY1996. While the deficit did not reach the high levels projected before introduction of these measures, revenues were disappointing due to weak economic performance until mid 1993 when they began to improve significantly. The deficit was around 3.5 percent of GDP in FY1991 and FY1992, but was 2.3 percent in FY1993 and is expected to decrease to 1.8 percent in FY1994 and 1.4 percent in FY1995, and to be eliminated by FY1996.

The Reserve Bank of New Zealand Act of 1989 instructs the Reserve Bank to direct monetary policy towards achieving and maintaining price stability. The Act requires the Reserve Bank Governor and the Minister of Finance to agree on policy targets. The current agreement, reached in December 1992, set a goal of maintaining a zero to two percent annual rise in the consumer price index (CPI). The CPI for the last quarter of 1991 registered only one percent above 1990. This level of CPI increase has been maintained through September 1993. Government and independent forecasts suggest that there should be no difficulty maintaining the CPI target. The Reserve Bank uses one day loans to banks of government receipts, daily open market operations, and twice weekly Reserve Bank bill tenders to implement its monetary policy.

The structural reforms introduced brought strong productivity gains, but until mid-1993, output gains were elusive. The resultant "labor shedding" increased unemployment to 11.1 percent in March 1992, the highest level since the 1930's. Since then, unemployment has fallen back to 10.2 percent in March 1993. Unemployment probably now has peaked, but reduction of the current high level will only be gradual. GDP increased by 1.4 percent in the financial year ending March 1993. Recovery began initially in the export sector, but now appears to be consolidating, with recent improvements in domestic consumption, construction and business investment. Prospects for growth in the 2.5 percent to 3.5 percent range appear good over the next few years.

2. Exchange Rate Policy

The New Zealand dollar was floated in March 1985 as part of a broad-based deregulation of financial markets. The Reserve Bank has not intervened in the foreign exchange market since the float. In mid-October 1993, the New Zealand dollar was worth about ten percent less on a trade-weighted basis than at the time of the float. However, the New Zealand dollar appreciated by about 20 percent against the U.S. dollar during this period. Even so, U.S. goods and services remain competitively priced in the New Zealand market.

In pursuing the objective of price stability, the Reserve Bank uses the following check list of indicators: exchange rates; level and structure of interest rates; growth of money and credit; inflation expectations; and trends in the real economy. The interest rate yield gap and the trade weighted exchange rate are seen as the principal indicators. While not attempting to run a fixed exchange rate band, the Reserve Bank does seek "comparative exchange rate stability." The Reserve Bank's control of primary liquidity influences the exchange rate indirectly through its impact on short-term interest rates.

3. Structural Policies

The then Labour Government's reform program begun in 1984 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. Certain producers, primarily motor vehicle assemblers and textile, carpet, footwear and apparel manufacturers, retain high but decreasing effective rates of protection. In March 1991, a further program was announced to cut most tariffs by one-third from 1993 to 1996. Liberalization beyond 1996 will be determined by a review to be held in 1994, which of course will be affected by the outcome of the GATT Uruguay Round.

The major structural problems left unaddressed by the Labour Party government were labor market rigidities and an overly generous welfare system. Both of these problems adversely affect 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 after its election in October 1990.

In December 1990, the new National Party 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 nationwide occupational awards. The removal of these restrictive practices has generated more flexible work place arrangements with consequent improvements in productivity.

The December 1990 initiative also included immediate reductions in expenditures for social benefits through better targeting, and 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. In August 1993, despite strong public resistance, the three major political parties agreed to changes to the universal retirement system to bring its costs to the government under control.

4. Debt Management Policies

Public debt in New Zealand is high when compared with that of 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 1993, total public debt was NZD 47.3 billion, equivalent to 60 percent of GDP. This improvement is largely due to the use of proceeds from privatization to repay external debt, and to the improving economy. In the fiscal year ending March 1988, debt service on the public debt reached nearly NZD 5 billion, or 8.4 percent of GDP and 20 percent of government expenditure. Public debt service dropped to NZD 3.7 billion in FY1993, or 4.7 percent of GDP and 12.1 percent of expenditures.

External debt accounted for 42 percent of the total in mid 1993, down from 51 percent of total debt in 1987. Interest on public external debt in FY1993 equaled 6.3 percent of exports of goods and services.

5. Significant Barriers to U.S. Exports

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. (Five categories of goods were covered by industry plans: footwear, carpet, textiles, apparel, and motor vehicles.) Tariffs on other goods were reduced in four stages between July 1988 and July 1992 from a range of 30 to 40 percent to a range of between 16 to 19 percent. In 1991 it was announced that tariff reductions would be continued between 1993 and 1996. A review for the post-1996 period will be conducted in 1994.

Under separate treatment for goods covered by the former industry plans, current relatively high tariffs for apparel, textiles, curtains, carpets, footwear, motor vehicles and tires will be reduced in stages to July 1996 by about one-quarter to one-third of the existing tariffs. However, even after the reductions, passenger vehicles and original equipment tires will still face a tariff of 25 percent; replacement tires, 15 percent; and apparel, 30 percent, for example.

Thus, despite extensive reform, tariffs on goods competing with domestic products remain relatively high. 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.

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 about three percent in 1989. The remaining import license controls for goods under the former industry plans were eliminated in 1992. This liberalization has benefitted U.S. exporters.

At the inaugural meeting of the U.S. Trade and Investment Council, the U.S. raised concerns that 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. The Apple and Pear Marketing Act of 1971 was amended in 1993. Deregualtion of the domestic market began January 1, 1994.

New Zealand welcomes and encourages foreign investment without discrimination. Approval by the Overseas Investment Commission (OIC) is required for foreign investments over NZD ten million or investments of any size in specific sectors. The

review of investments above NZD ten million applies to both acquisitions and "greenfield" 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, and its approval requirements have not been an obstacle for U.S. investors. For example, the entire national railroad system, including the only regular passenger, motor vehicle, and rail ferry service connecting the two main islands, was sold to a majority U.S.-owned consortium in 1993. No performance requirements are attached to foreign direct investment. 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 signing 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 issues and concerns. The first TIFA meeting was held in Washington in April 1993.

6. Export Subsidies Policies

New Zealand acceded to the GATT Subsidies Code in 1981. At that time, New Zealand undertook to eliminate seven export subsidy programs that were inconsistent with the code by March 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 in 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, the Bern Convention for the Protection of Literary and Artistic Works and the Universal Copyright Convention. New Zealand has generally supported measures to enhance intellectual property protection in multilateral organizations.

The Government of New Zealand strongly endorses the protection of intellectual property and enforces effectively its laws 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 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 among 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.

The government is engaged in a full review of its intellectual property rights regime. In 1990 the Ministry of Commerce issued a two volume study on possible options for reform. Interested parties were invited to submit comments. The government has issued recommendation papers and received comments from the public on several issues. It is expected that reform legislation will be introduced in 1994 on trademarks, patents, designs, and parallel imports.

8. Worker Rights

a. *The 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 multi-company contract.

b. *The Right to Organize and Bargain Collectively.*—The right of labor unions to organize and bargain collectively is provided by law. Unions actively recruit mem-

bers 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 work week, with a minimum of three weeks' annual paid vacation and 11 paid public holidays. Under the Employment Contracts Act, however, employers and employees may agree to longer hours than the 40-hour per week standard. 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, including a new Health and Safety in Employment Act which took effect in April, 1993. Under this legislation, employers are obliged to provide a safe and healthy work environment and employees are responsible for their own safety and health, including the right to remove themselves from dangerous or hazardous situations, as well as for ensuring that their actions do not harm others. Under the Employment Contracts Act, workers have the legal right to strike over health and safety issues. Unions and members of the general public may file safety complaints on behalf of workers. Safety and health rules are enforced by Department of Labour inspectors who have the power to shut down equipment if necessary.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		397
Total Manufacturing		417
Food & Kindred Products	−12	
Chemicals and Allied Products	69	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	3	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	305	
Wholesale Trade		82
Banking		(1)
Finance and Insurance		195
Services		(1)
Other Industries		1,925
TOTAL ALL INDUSTRIES		3,008

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

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

THE PHILIPPINES

Key Economic Indicators

[Billions of Pesos unless otherwise noted]

	1991	1992	[1] 1993
Income, Production and Employment: [2]			
Real GDP (1985 prices)	712	713	721
Real GDP Growth (percent)	-0.7	0.1	1.2
GDP (at current prices)	1,245	1,343	1,465
By Sector:			
Agriculture	261	290	321
Energy and Water	29	33	36
Manufacturing	316	328	350
Construction	62	69	76
Ownership of Dwellings/Real Estate	73	86	94
Financial Services	49	53	58
Other Services (priv. and gov.)	437	468	512
Government Services	90	92	100
Health and Educ. (private)	34	30	33
Net Exports of Goods and Services	-18	-62	-100
Real Per Capita GNP ($U.S.) [3]	730	N/A	N/A
Labor Force (000's)	25,631	26,290	26,990
Unemployment Rate (percent)	10.6	9.8	9.0
Money and Prices (annual percentage growth):			
Money Supply (M2) [4]	15.7	11.0	11.3
Ave. Loan Rate [5] [6]	23.5	19.4	15.0
Ave. Saving Rate [5] [6]	11.0	10.6	8.1
Retail Price Index (Metro Manila) [4]	18.8	5.1	2.1
Wholesale Price Index (Metro Manila) [4]	13.5	4.5	-1.3
Phil. Consumer Price Index [5]	18.7	8.9	7.8
Exchange Rate (Pesos per $): [5] [6]			
Official (interbank rate)	27.48	25.51	27.35
Parallel ($ buying rate)	27.71	25.40	27.40
Balance of Payments and Trade (millions of U.S. dollars):			
Merchandise Exports (FOB) [4]	8,839	9,824	10,900
Exports to U.S. (U.S. data)	3,472	4,358	4,740
Merchandise Imports (FOB) [4]	12,052	14,520	17,000
Imports from U.S. (U.S. data)	2,265	2,753	3,230
Bilateral Aid, U.S. [4]	375	417	305
Bilateral Aid, Other Countries	968	1,339	1,800
External Public Debt [3]	24,116	24,511	27,215
Debt Service Payments	2,992	3,113	3,750
Gold and FOREX Reserves [5]	4,470	5,218	4,500
Trade Balance [4]	-3,213	-4,695	-6,100
Balance with U.S	1,207	1,605	1,510

N/A—Not available.

[1] For 1993, figures are full-year estimates based on partial data available as of October 1991.
[2] For 1993, figures estimated from six-month data.
[3] IBRD estimate.
[4] For 1993, Figures estimated from seven-month data.
[5] For 1993, figures estimated from nine-month data.
[6] Figures are actual rates, not changes in them.

Source: National Economic and Development Authority, Bangko Sentral ng Pilipinas, Department of Finance, EA/P Trade cable.

1. General Policy Framework

Assuming office in mid-1992, President Fidel Ramos pledged that the Philippines would achieve Newly Industrialized Country status by the year 2000, based on an open and competitive economy. In the first year of his administration he successfully concentrated on establishing political stability, a prerequisite to economic reform.

Economic takeoff, however, remains elusive, as implementation of the necessary policy and legislative changes has been slow.

After two years of stagnation, real growth resumed in 1993, although at rates lower than the government initially expected. A large and growing fiscal deficit has severely inhibited the government's ability to stimulate the economy or to introduce programs to deal with deteriorating infrastructure. The Philippine government borrows heavily from the domestic market to finance its fiscal gap and, in recent years, domestic debt servicing has eaten up a larger share of the budget pie than has servicing of foreign debt. Short-term maturities make up the bulk of the government's domestic obligations, which officials are working to address in order to ease cash flow difficulties. Year-to-year inflation, which has been in single digits since February 1992, is being monitored closely by the government. In mid 1993, the peso began to depreciate, at least in part due to speculative pressures. The Philippines will continue to run a sizable overall trade deficit, but enjoys a surplus in bilateral U.S.-Philippine trade.

The major tools for regulating monetary aggregates are reserve requirements and open market operations. However, mounting financial losses have hampered the Central Bank's ability to conduct open market operations effectively. As a result, the reserve requirement imposed on the banking sector's deposit liabilities (currently 22 percent) remains high. As one element of its economic reform program, the government has replaced the old Central Bank with a new entity, the Bangko Sentral ng Pilipinas (BSP). To date, however, final decisions have not been made on the degree of independence to be enjoyed by the BSP or on the total of old Central Bank liabilities which it will assume. Decisions on both of these issues are central to an IMF agreement.

The most visible constraint on overall economic growth is the continuing shortage of electric power. Despite attempts by industry to schedule demand, "brown-outs" (simple cutoffs of electricity to entire regions of the city or country) have occurred on virtually every work day of 1993. The duration of the brown-outs, which peaked at eight hours per day during the hot season, had decreased by the fall of 1993, in part as a result of cooler weather, but also as a "fast track" program for new generating facilities began to show results. However, the new plants are generally either gas turbine or diesel, better suited to meet "peak" rather than "base" load requirements. More new plants and rehabilitation efforts should help to stabilize the power situation by mid-1994, but full resolution remains at least two to three years away. Inadequate infrastructure is also a constraint on growth, e.g. deficiencies in the telecommunications and transportation networks.

2. Exchange Rate Policy

Historically, the Philippines has resisted significant depreciation of the peso because of concern with inflation, debt service costs on the country's more than $30 billion foreign debt stock, and the import-dependent nature of major export products. The exchange rate is determined through what is essentially a "managed float," with monetary authorities acting through a combination of interest rate adjustments and direct intervention.

In 1992, the government liberalized and simplified exchange rules for trade and non-trade transactions allowing immediate repatriation and remittance without prior approval by the Bangko Sentral. Foreign exchange earners are now generally free to buy and sell foreign exchange, maintain foreign currency accounts and transfer foreign exchange out of the country for deposit or investment abroad. Off-floor computerized interbank forex trading was introduced at the same time. The BSP continues to impose ceilings on individual banks' foreign exchange positions, requiring excess forex holdings to be sold to the BSP or to other commercial banks. Restrictions on foreign investments and foreign borrowings also remain.

3. Structural Policies

In recent years, trade policy changes have begun to open the relatively closed Philippine economy, reversing 40 years of import-substitution approaches. Since 1986, the list of items subject to quantitative restrictions and/or pre-clearance has shrunk considerably. The major exception to this liberalization is in the agricultural sector where products which account for 70 percent of production (by value) are protected from import competition. The government is also attempting to rationalize and simplify the tariff structure. (See Section 5.)

The foreign investment law which took effect in November 1991 allows full foreign ownership of companies engaged in activities not covered by investment incentives. A "negative list" of sectors reserved for Philippine companies remains.

In June 1993, President Ramos signed legislation extending the period foreign investors are allowed to lease land from 50 to 75 years.

4. Debt Management Policies

Like its predecessor, the Ramos Administration has maintained a firm commitment to servicing the country's foreign obligations, despite Congressional and other political rhetoric supporting debt repudiation and/or debt service caps. Since 1986, the government has sought debt service relief through rescheduling accords (four thus far with Paris Club creditors), various debt reduction schemes such as buy-backs and debt-to-equity swaps, and a gradual shift towards longer-term and more concessional sources of financing.

In 1989 and 1990, monetary and fiscal policy slippages exacerbated by a spate of natural calamities, several attempted coups and the Gulf crisis, threatened macroeconomic stability. In 1991, the government focused on a two-year economic stabilization program, supported by an International Monetary Fund (IMF) standby arrangement. The IMF program paved the way for the fourth debt rescheduling accord with official bilateral creditors. Between 1990 and 1992, the government focused on its foreign commercial obligations. It consummated two debt buy-back deals with foreign creditor banks totaling $2.5 billion of face value debt. In December 1992, the government and foreign commercial creditors also implemented a comprehensive debt relief package, which paved the way for the Philippines' reentry into the voluntary capital market after nearly a decade's absence.

The country's foreign debt ballooned from $2.3 billion in 1970 to $26.2 billion in 1985, a compounded growth rate of 19 percent yearly. Since 1985, the pace of increase has slowed markedly, but the total foreign debt level reached $30.9 billion at the end of 1992. Initiatives pursued since the mid-1980s have reduced the ratio of debt service payments to export receipts from a 1982 high of 38 percent to under 20 percent in 1992. As a percentage of gross national product (GNP), the foreign debt fell from a peak of 96 percent in 1986 to 56 percent in 1992.

Both Paris Club and IMF arrangements ended in March 1993, with the Philippines generally in compliance with IMF performance targets. However, a new IMF agreement is being delayed by disagreement over the Philippines' medium-term macroeconomic program and concern over the government's inability to collect sufficient revenue. The absence of a new IMF agreement has delayed negotiation of a fifth Paris Club debt rescheduling accord, requiring full payment of maturing Paris Club obligations since April 1993. Foreign assistance donors have also held off making new pledges, pending a new IMF arrangement. Discussions with the IMF resumed in January, 1994.

5. Significant Barriers to U.S. Exports

Tariffs and Other Import Charges: Under a 1981 World Bank Structural Adjustment Program, the government initiated a trade liberalization program incorporating tariff reductions. As a result, the average nominal tariff fell from 42 percent in 1979 to 28 percent in 1991. On July 20, 1991, Executive Order 470 implemented a further tariff reduction, restructuring, and simplification program to be completed by 1995. The third phase of this program implemented on July 1, 1993, as scheduled, lowered the nominal average tariff to 23 51 percent. When fully implemented, the new structure will have compressed the previous seven-tier tariff structure to four tiers of three, ten, 20, and 30 percent and an average nominal tariff of 20 percent.

About 208 products are exempt from the basic framework of E.O. 470 and remain subject to 50 percent tariff. While representing only 3.74 percent of tariff lines, included are rice, coconut oil, sugar, fruits, and luxury consumer goods such as liquor, tobacco, candy, and leather goods.

For U.S. agricultural exports to the Philippines, the most serious trade impediment is the continued exclusion of any imports of some major commodities, currently through the "Magna Carta of Small Farmers." This Act states "importation shall not be allowed on agricultural products that are produced locally in sufficient quantity." Certified under this provision were corn and its substitutes for feed, poultry and poultry products, hogs and pork products, and meat and meat products except beef and beef products. In another action, the tariff on high-grade boneless beef was raised to 60 percent effective August 1992.

Import Licenses: Between 1981 and October 1992, licensing requirements were 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 importation of about 280 items was deregulated, including (but not limited to) fish and fish preparations, raw sugar, corn, most meat and meat products, farm commodities, household appliances, and new buses and vans for the transport of goods. However, actions under the "Magna Carta" nullified the impact on farm commodities such as corn, poultry and swine and their products.

Commercial vehicles and parts, covered by the Board of Investments' (BOI) progressive industrial development program, still require a BOI "authority to import". Over 100 products will continue to be excluded for reasons of health, safety or national security.

Under the government's import liberalization program (ILP), prior clearance is 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 Bangko Sentral. The Philippines is a signatory to the GATT Import Licensing Code.

Services Barriers—Banking: Four foreign banks, established in the Philippines prior to 1948, have been allowed to continue to operate. As of June 1993, they controlled approximately 11 percent of total commercial bank assets. Additional foreign bank branches have been denied entry since 1948. Foreign participation in existing domestic banks is currently limited to 30 percent (40 percent with Presidential approval) of voting stock. However, pending legislation, which is highly controversial, would liberalize foreign participation in the sector by allowing the entry of additional foreign bank branches, the expansion of existing foreign banks, and an increase in the maximum level of foreign participation in domestic banks. Foreign banks may not obtain a "universal banking" license, which would allow investment banking activities.

Insurance: The government opened the life and non-life insurance sectors to new entrants in March 1992. To qualify, prospective entrants must be domestically incorporated and be no more than 40 percent foreign-owned. The entry of foreign firms (defined in the Philippine Insurance code as companies organized under laws other than the Philippines') remains suspended.

Securities: Membership in the Philippine Stock Exchange (formed by the merger of the Makati and Manila Stock Exchanges) is open to any company (foreign or domestic) incorporated in the Philippines. A foreign investor who wishes to purchase shares of stock of a domestic corporation is limited by national ownership requirements under the Philippine Constitution.

Legal Services: Philippine citizenship, graduation from a Philippine Law School, and membership in the Integrated Bar of the Philippines are required to practice law.

Motion Pictures: More vigorous campaigns by concerned government agencies (e.g. the Videogram Regulatory Board and the National Bureau of Investigation) have reduced the unauthorized commercial sale of copies of foreign-made films, but excessive taxation and widespread piracy remain problems.

Standards, Testing, Labelling and Certification: The "Generic Act" of 1988 is 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 on all pharmaceutical firms which were disproportionately borne by foreign-owned firms. The Philippines is a signatory to the GATT Standards Code.

Investment Barriers: The Philippine government has taken important steps in recent years to welcome foreign investment via foreign exchange liberalization and more liberal foreign ownership regulations for enterprises not registered for incentives with the Board of Investment (See Section 3). However, the Constitution and specific laws continue to prohibit foreign ownership in a number of industries and limit it in others. Further, only enterprises with at least 60 percent Filipino equity may own land. The exploration, development and utilization of natural resources must be undertaken through production sharing or similar arrangements with the Philippine government; As a general rule (oil exploration is an exception), entities seeking to engage in such activities must be at least 60-percent Filipino-owned.

Under the Omnibus Investment Code of 1987, the Philippine government, through the Board of Investment (BOI), offers incentives to registered investors in preferred pioneer or non-pioneer activities. In general, to qualify for registration, the enterprise must be no more than 40-percent foreign-owned, unless the proposed activity is classified as pioneer, or at least 70 percent of production is for export, or the enterprise locates in areas classified by the government as less developed. However, the enterprise must agree to divest to a maximum of 40 percent foreign ownership within 30 years from registration with the BOI. Exempted from the divestment requirement are enterprises which export 100 percent of production. Incentives are also granted and more than 40-percent foreign ownership allowed for firms which operate in any of the four government-run export processing zones (in which case 100 percent of production should be for export).

As a general policy, 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. For BOI-registered firms, foreign nationals may retain the positions of President, Treasurer and General Manager (or their equivalents) when a company is foreign-owned.

Foreign partnerships and corporations (i.e., enterprises more than 40-percent foreign-owned) may engage in peso borrowings, but are subject to certain debt-to-equity ratios which must be maintained for the term of the debt. Firms engaged in government-promoted activities (i.e. which receive incentives), are subject to a 60:40 ratio. Other manufacturing firms must not exceed a 55:45 ratio. The maximum debt-to-equity ratio allowed non-manufacturing firms is 50:50.

The Philippines does not provide guarantees against losses due to non-convertibility of currency or damage caused by war. However, a full U.S. Overseas Private Investment Corporation (OPIC) agreement is in effect, and U.S. investors may contract that agency for coverage.

Government Procurement Practices: Philippine government procurement policies generally do not discriminate against foreign bidders. However, if comparable in quality, price, and delivery terms, preferential treatment is to be given to locally-manufactured iron and steel products in government projects. Preferential treatment is given to Filipino firms in the purchase of medicines, and government offices which grant a rice allowance 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 bids on infrastructure projects requires the domestic corporation to be at least 75 percent Filipino-owned. 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: The Bureau of Customs continues to utilize Home Consumption Value (HCV) as the basis for customs valuation, despite persistent requests from the Philippines' trading partners that this system be abandoned. Legislation is pending before the Congress to replace the HCV system, but it is doubtful that a change will be implemented before late 1994, at best.

One element of the import liberalization program is a requirement that all shipments valued at over $500 be inspected prior to shipment, to prevent misdeclaration of goods and tariff evasion. The Philippines is not a signatory to the GATT Customs Valuation Code.

6. Export Subsidies Policies

Enterprises which register with the BOI to obtain incentives 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 domestically-sourced capital equipment and raw materials. Export traders are entitled to tax credits for imported raw materials required for packaging.

Exporters may avail themselves of foreign currency deposit unit (FCDU) loans from local commercial banks up to 100 percent of the letter of credit, purchase order or sales contract without prior BSP approval. The BSP will loan to exporters against commercial paper at less than treasury bill rates. 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.

An Export-Import Banking Program of the Development Bank of the Philippines was launched on May 17, 1993 primarily to address the needs of the exporting community. Export-oriented activities that are labor-intensive and which will utilize local raw materials may benefit from this program which has an initial capital of one billion pesos ($37 million based on average May 1993 exchange rate).

7. Protection of U.S. Intellectual Property

The Philippines was moved from the U.S. Trade Representative's special 301 "priority watch list" to the "watch list" following a bilateral IPR agreement signed in April 1993 by the two governments. The agreement commits the Philippine Government to strengthen significantly protection of intellectual property rights (IPR).

In February 1993, President Ramos created the Inter-agency Committee on Intellectual Property Rights as the body charged with recommending and coordinating enforcement oversight and program implementation. The Philippine Government is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Bern 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 IPR remains a bilateral trade concern. Current jail sentences and fines imposed for infringement and counterfeiting are not real deterrents. Insufficient funding, due to budget constraints, hampers the effective operation of agencies tasked with IPR enforcement. Joint government-private sector efforts have improved administrative enforcement; but when IPR owners must use the courts, enforcement is slower and less certain.

Patents: The main problem with the present la is a possibility of compulsory licensing two years after registration with the Patent, Trademark and Technology Transfer Board, if the patented item is not being utilized in the Philippines on a commercial scale or if domestic demand for the item is not being met to an "adequate extent and on reasonable terms". Compulsory licensing is even easier for pharmaceutical and food products, where lack of use, inadequate production for domestic demand, etc. need not be established. In the bilateral IPR agreement of April 1993, the government committed to submit to the Philippine Congress an amendment which will allow importation to satisfy working requirements for patented goods. Starting March 15, 1993, rules on royalty payments were relaxed somewhat, granting automatic approval for royalty agreements not exceeding five percent of net sales. Royalty rates higher than five percent may be allowed in meritorious cases. Naturally occurring 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. Under the terms of the U.S.-Philippine IPR agreement, the government will seek amendments to the Philippine trademark law to provide protection for internationally well-known marks.

Philippine law requires trademark owners to file an affidavit of use or justified non-use with the Patents, Trademark and Technology Transfer Board every five years to avoid cancellation of trademark registration. Non-use of a mark must be for reasons totally beyond the control of a registrant. (Import bans, for example, constitute justified non-use.) Current practice provides that internationally well-known marks should not be denied protection because of non-registration or lack of use in the Philippines Pending legislation seeks to incorporate this practice into Philippine law. Trademark protection is limited to the manufacturing or marketing of the specific class of goods applied for, and to products with a logical linkage to the protected mark.

Copyrights: Philippine law is overly broad in allowing the reproduction, adaptation or translation of published works without the authorization of the copyright owner. A presidential decree permits educational authorities to authorize the reprint of textbooks or other reference materials without the permission of the foreign copyright holder, if the material is certified by a school registrar as required by the curriculum and the foreign list price converts to 250 pesos or above. This decree, especially for textbooks, is inconsistent with the appendix of the 1971 text of the Bern Convention. However, the Philippine Government is expected, under the terms of the bilateral IPR agreement reached in April 1993, to correct these deficiencies through accession to the Paris Act of the Bern Convention and through amendments to its domestic legislation.

Video piracy is a serious 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 30 years, is shorter than the internationally accepted norm of 50 years. The government, however, has committed to submitting amendments to the Philippine Congress to bring the term of copyright protection into conformity with international norms. Computer software is widely pirated, prompting software owners to organize in order to protect their rights in the Philippines.

New Technologies: Many shops rent video laser discs purchased at retail stores in the United States without payment of commercial rental fees to the producers. More recent issues involve copyright infringement complaints against cable television stations which re-transmit copyrighted works without authorization from or payment to the copyright owners. The bilateral IPR agreement of April 1993 commits the government to a number of actions designed to fully enforce the protections afforded to audio-visual works under Philippine laws and regulations.

8. Worker Rights

a. *The Right of Association.*—The right of workers, including public employees, to join trade unions is assured by the Constitution and legislation. This right is freely

practiced without government interference. About ten percent of the nation's employed work force (approximately 24 million) is organized into 5,757 trade unions.

Industrial peace continued to improve during the first nine months of 1993, with the number of strikes declining, compared to 1992. Work stoppages were highest in March (15 strikes) and lowest in July (five strikes). The manufacturing sector experienced the majority of work stoppages, with 64 percent of the strikes involving 25,446 workers.

Most strikes (74 percent) resulted from disputes over unfair labor practices; the remaining labor disputes (26 percent) involved a breakdown in collective bargaining.

b. *The Right to Organize and Bargain Collectively.*—Labor's right to organize and bargain collectively is provided for by 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 1991, the number of collective bargaining agreements in force has increased from 4,409 to 4,785. 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 Labor Code of the Philippines prohibits 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. However, legislation enacted in 1992, with the intent of providing greater protection to children, apparently inadvertently allowed wider employment of children. The new law stipulates that children below 15 years may be employed, in any establishment, 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 and arrangement of working time; and d) formulate and implement a continuous program for training and skill acquisition for the child.

The implementation of this law would put the Philippines out of conformity with Convention 59 of the International Labor Organization. However, implementation has been delayed and an amendment to the legislation is now pending. The proposed amendment will incorporate the above stipulations on child labor, but will restrict the employment of children to operations run by their families or to participation in public entertainment.

e. *Acceptable Conditions of Work.*—The official minimum wage in the Manila region is $4.06 per day (118 pesos at 29 pesos per $). Outside Manila, the minimum wage varies in each of the 12 government regions, ranging from $2.15 to $3.79 per day. For agricultural workers on plantations, the minimum daily wage ranges from $2.30 to $2.61, depending on the size of the agricultural establishment; $2.29 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 Congress is currently considering various proposals for increasing the minimum daily wage. The range of proposed increases is from 25 to 35 pesos per day in the private sector and up to a doubling of wages for government workers.

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 work place and harmful substances are relatively advanced.

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

Firms with U.S. investment have acquired a reputation for being responsible and responsive in dealing with the workforce. 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		([1])
Total Manufacturing		1,021
Food & Kindred Products	350	
Chemicals and Allied Products	366	
Metals, Primary & Fabricated	24	
Machinery, except Electrical	−5	
Electric & Electronic Equipment	179	
Transportation Equipment	0	
Other Manufacturing	107	
Wholesale Trade		126
Banking		340
Finance and Insurance	([1])	
Services		([1])
Other Industries		64
TOTAL ALL INDUSTRIES		1,565

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

SINGAPORE

Key Economic Indicators

[Millions of Singapore dollars unless otherwise indicated]

	1991	1992	[1] 1993
Income, Production, and Employment:			
Real GDP (1985 prices)	60,884	64,416	69,569
Real GDP Growth (pct.)	6.7	5.8	8.0
GDP (current prices)	69,451	74,822	81,590
By Sector: (1985 prices)			
Agriculture	161	162	156
Energy and Water	1,370	1,430	1,487
Manufacturing	17,458	17,868	19,343
Construction	3,691	4,341	4,599
Commerce	10,677	11,034	11,621
Transport and Communications	8,758	9,562	10,289
Financial Services	15,771	16,625	18,161
Other Services	6,280	6,597	6,883
Govt. Devmt. Exp. on Health and Education	507.3	724.3	743.0
Net Exports of Goods and Services	6,641	5,822	4,829
Real Per Capita GDP (US$)	12,992	14,435	15,498
Labor Force (000's)	1,554	1,576	1,641
Unemployment Rate (pct.)	1.9	2.7	2.5
Money and Prices:			
Money Supply (M2) (pct. growth)	12	9	3.6
Base Lending Interest rate [2]	7.1	5.6	5.4
Prime Personal Saving Rate	3.1	1.8	1.6
Retail Inflation (sales volume index, 1991–100)	100.0	109.7	114.4
Wholesale Inflation (1985–100) [3]	86.3	82.5	81.1

Key Economic Indicators—Continued

[Millions of Singapore dollars unless otherwise indicated]

	1991	1992	[1]1993
CPI (1988–100)	110.0	112.5	114.9
Exchange Rate S$/US$ Official	1.73	1.63	1.61
Balance of Payments and Trade (in million of U.S. dollars):			
Total Exports (FOB)	56,739	61,531	68,200
Exports to U.S	11,620	13,361	15,365
Total Imports (CIF)	60,861	66,428	74,730
Imports from U.S	10,422	11,865	13,350
Aid from Other Countries	0	0	0
External Public Debt	23.5	26	33.6
Debt Service Ratio[4]	0.1	0.1	0.1
Gold and FOREX Reserves	55,324	65,239	72,545
Trade Balance[5]	−4,122	−4,897	−6,530
Balance with U.S	1,198	1,496	2,015

[1] Estimated.
[2] Refers to actual average interest rate quoted by 10 leading banks.
[3] Refers to manufactured products price index.
[4] Percent of total exports of goods and services.
[5] Merchandise trade.

[1] Source: Government of Singapore official publications.

1. General Policy Framework

Singapore is an island nation with only 3.2 million people and no natural resources, except for a magnificent harbor and a skilled and hard-working 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 realistic alternative but to adopt an outward-looking, export-oriented economic policy that encourages two-way flows of trade and investment. That policy has been a resounding success. Total trade in 1992 was three times the country's gross domestic product (GDP), and Singapore has become a major center for electronics, oil refining and financial services, acting as a hub for the growing southeast Asian market. Real GDP growth, which averaged seven percent annually over the last decade, slipped to 6.7 percent in 1991 and 5.8 percent in 1992. However, the economy has rebounded in 1993, with growth expected to reach about eight 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 46 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. The exchange rate is the MAS's most important tool for controlling inflation.

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. This could erode the export competitiveness of certain industries 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. Despite the strong growth figures for 1993, the government appears to have succeeded in engineering a gradual slowdown to a more sustainable economic growth rate of five to seven percent.

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 bench mark 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 due to the MAS' ability to restrain inflation in the face of rising wages. This has made U.S. products more competitive in the Singapore market. In 1993, the U.S. dollar hit an all-time low of S$ 1.57, down from S$ 2.18 at the end of 1986. There has been little apparent impact on Singapore's export performance to date. 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-largest U.S. export customer in 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. As of 1993, the corporate tax is 27 percent. There are no taxes on capital gains, turnover, or development. However, the government will institute a new three percent value-added tax on goods and services beginning in April 1994. 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" behavior 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 sound economic policy has attracted U.S. investment totalling over $6.6 billion (on an historical cost basis). Almost 900 U.S. companies have operations in Singapore, and a significant share of U.S.-Singapore trade is accounted for by intracompany 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-fourths 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. Yet the United States still accounts for one-fifth of Singapore's total trade and over a quarter of Singapore's exports (excluding re-exports).

Over the last few years, the government has emphasized the importance of restructuring Singapore to maintain its competitiveness in the face of growing competition of its lower cost neighbors, including the emerging economies of Vietnam and China. The 1993 budget reflected this priority. Although the government allocated additional funding for educational and health care endowments (Edusave, Medisave), the thrust of the new budget was on measures to increase savings, investment, and exports, notably the new three percent goods and services tax that takes effect in April 1994 coupled with rebates and cuts in income taxes (from 33 to 30 percent for the top rate) for individuals. The government also reduced the corporate tax to 27 percent and, as part of its "regionalization" drive, offered numerous new tax incentives to firms that invest abroad.

In order to reduce reliance on foreign labor, the government maintains differing recruiting limits and levy rates based on skill levels for industry. Levies can impose a considerable financial burden, but are also a powerful incentive for low-technology, labor-intensive activities to move to neighboring countries.

4. Debt Management Policies

Singapore's external public debt was a mere $24 million at the end of 1992, and its debt service ratio is less than 0.1 percent of its total exports of goods and serv-

ices. 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 $41 billion in the first quarter of 1993—about $12,900 per capita. Singapore is now using a portion of those accumulated reserves to expand its direct investments overseas, both within Southeast Asia and farther afield in China, Europe and North America.

5. Barriers to U.S. Exports

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

U.S. exports to Singapore rose sharply (19 percent) in 1992 to $11.9 billion. Imports from Singapore, meanwhile, surged by 20 percent to $13.4 billion. After shrinking to −$1.2 billion in 1991, the U.S. trade deficit with Singapore has grown to −$1.5 billion.

Singapore maintains some market access restrictions in the services sector. For example, foreign investment in the financial, legal, insurance and stockbroking services sectors is limited by regulation and administrative practice. Local retail banking is limited to those foreign banks with full licenses—the Monetary Authority of Singapore has issued no new ones since 1970. Foreign banks are not allowed additional branches or off-premises automatic teller machines, 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 stockbroking firms are required to apply for licenses; no new insurance license 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. Engineers and architects have experienced problems in obtaining local certification of their professional qualifications.

The parastatal Singapore Telecom maintains a 15-year monopoly (beginning 1992) 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 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. One example of a step in that direction was the elimination in 1992 of volume-sensitive charges on the sale of leased-line data services to third parties. Authorities began selling Singapore Telecom shares to the public in November 1993 as part of a gradual privatization of the company.

U.S. cigarette manufacturers note that the structure of import duties and excise taxes on tobacco products effectively discriminates against imported cigarettes. The duty on an imported cigarette is based on its full weight (including the paper and filter), whereas local cigarette manufacturers pay duty only on the tobacco. U.S. industry sources estimate this puts them at a disadvantage of S$ 6.39 per kilogram, roughly equivalent to a three percent tariff.

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

6. Export Subsidies Policies

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

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, and in July 1993, the government for the first time arrested suspected software pirates. However, 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, resulting in considerable sales losses for patent holders. Official consultations are ongoing in the context of the U.S.-Singapore bilateral trade and investment framework agreement on how to improve Singapore's record on intellectual property rights protection.

8. Worker Rights

a. *The 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 1.6 Million workers, of which some 229,000 are organized into 83 trade unions. Some 74 of these, representing almost 99 percent of unionized workers, are affiliated with an umbrella organization, the National Trade Union Congress (NTUC), which has a symbiotic relationship with the government.

b. *The 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 prohibits the employment of children under 12 years and restricts children under 16 from certain categories of work.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,213
Total Manufacturing		3,460
Food & Kindred Products	(1)	
Chemicals and Allied Products	319	
Metals, Primary & Fabricated	29	
Machinery, except Electrical	1,400	
Electric & Electronic Equipment	1,440	
Transportation Equipment	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Other Manufacturing	181
Wholesale Trade	892
Banking	365
Finance and Insurance	369
Services	276
Other Industries	55
TOTAL ALL INDUSTRIES	6,631

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

TAIWAN

Key Economic Indicators

[Billions of new Taiwan dollars (NTD) unless otherwise noted]

	Actual 1991	Actual 1992	Estimated 1993
Income, Production, and Employment:			
Real GDP (at 1986 prices)	4,164.6	4,437.3	4,707.9
Real GDP Growth (pct.)	7.2	6.5	6.1
GDP (at current prices)	4,704.1	5,198.5	5,711.1
By Sector:			
Agriculture	173.9	183.2	196.7
Energy and Water	131.5	148.4	167.8
Mining & Quarrying	18.6	27.5	40.0
Manufacturing	1,618.8	1,707.9	1,787.2
Construction	229.1	270.0	321.7
Commercial Services	742.9	847.8	946.0
Transport & Communications	289.7	326.7	366.2
Financial Services	886.1	999.1	1,134.7
Govt. & Other Services	613.6	688.0	750.8
Net Exports of Goods and Services	237.8	128.9	97.4
Real Per Capita GDP (at 1986 prices) (NTD)	203,600	214,832	225,910
Labor Force (000's)	8,569	8,765	8,880
Unemployment Rate (pct.)	1.5	1.5	1.5
Money and Prices (Annual percentage growth):			
Money Supply (M2)	19.3	16.6	15.0
Base Interest Rate [2]	9.5	8.2	7.9
Personal Savings Rate	1.5	−7.4	−0.5
Retail Inflation	3.6	4.5	3.5
Wholesale Inflation	0.2	1.0	2.2
Consumer Price Index (1991 base)	100.00	104.46	108.12
Exchange Rate (US$/NTD): [3]			
Official	0.03737	0.03975	0.03789
Unofficial	0.03730	0.03964	0.03777
Balance of Payments and Trade (billion U.S. dollars unless noted):			
Total Exports (FOB) [4]	76.2	81.5	86.3
Exports to U.S	22.3	23.6	23.7
Total Imports (CIF) [4]	62.9	72.0	78.3
Imports from U.S.	14.1	15.8	16.8
AID from U.S. ($ millions) [5]	46.2	39.3	35.5

Key Economic Indicators—Continued

[Billions of new Taiwan dollars (NTD) unless otherwise noted]

	Actual 1991	Actual 1992	Estimated 1993
AID from other countries	0	0	0
External Public Debt	0.7	0.5	0.3
Debt Service Payments (paid)	1.9	2.1	1.5
Gold and FOREX Reserves	88.3	88.3	88.4
Trade Balance	13.3	9.5	8.0
Trade Balance with U.S	8.2	7.8	6.9

[1] [1] Estimates are based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of October 1993.
[2] Yearly average of the prime rate listed by the Bank of Taiwan.
[3] Average of figures at the end of the month.
[4] Taiwan Ministry of Finance figures for merchandise trade.
[5] Outstanding debts owed. AID disbursements stopped in 1968.

1. General Policy Framework

Taiwan's economy is in transition. Such labor-intensive industries as footwear, apparel and umbrellas that fueled the island's earlier development have declined while capital- and technology-intensive industries and services have grown. Personal savings rates, while still high, are lower than in the past. With per capita GDP exceeding $10,000, the people on Taiwan can increasingly afford to emulate the lifestyles of their counterparts in developed economies. Satisfying the needs of Taiwan's increasingly affluent consumers offers a bright prospect for U.S. firms.

Taiwan's trade flows reflect this transition. The increase in the volume of capital-intensive exports has offset the drop in labor-intensive exports. Due to large capital outflows in 1992, Taiwan ran its first balance of payments (BOP) deficit ($0.6 billion) in 12 years. It also ran BOP deficits in the second and third quarters of 1993. The United States remains Taiwan's largest trading partner, but the relative importance of the transshipment trade to mainland China via Hong Kong is increasing. High tariffs and import barriers in several sectors impede U.S. exports to Taiwan. In response to Taiwan's application to accede to the GATT as a separate customs territory, a working party was established in September 1992. As of October 1993, the GATT working party had met four times to discuss Taiwan's trade practices.

Efforts by the local authorities to revive Taiwan's economy through outlays on infrastructure have affected fiscal policy. In 1993, debt financing of the Six-Year (1991–1996) National Development Plan approached statutory limits on bonded debt. This prompted the authorities to scale down the Plan and, for the first time in years, to reduce the size of the regular budget. This reduction in the contribution to GNP by public sector investment led the Taiwan authorities to lower their prediction for economic growth from 7.0 to 6.2 percent for the second half of 1993. The Taiwan authorities hope to make further spending possible by increasing the statutory limits for bonded debt and by improving tax collection. Even the scaled-down, six-year plan, however, contains a number of major projects that offer good prospects for U.S. vendors and contractors.

Partly to mitigate fiscal problems and partly in response to complaints by political and business leaders about the worsening local investment climate, the Central Bank of China (CBC) relaxed its monetary policy in 1993. In May 1993, the CBC began releasing savings from the Postal Savings System at the rate of NTD 10 billion per month for one year. These funds are slated to promote domestic investments, particularly those connected with the Six-Year National Development Plan. In September 1993, the CBC lowered reserve ratios for deposits at commercial banks and announced its readiness to engage in open market operations to expand the money supply. One consequence of the new CBC policy is that the Taiwan authorities have also reduced somewhat restrictions on the inflow of foreign capital, particularly that by foreign institutional investors.

2. Exchange Rate Policy

Taiwan has a floating exchange rate system in which bankers and their customers independently set rates. The Taiwan authorities control the largest banks authorized to deal in foreign exchange, but the number of private domestic banks obtaining permits for foreign exchange dealing is increasing. In July 1993, the Taiwan authorities raised the ceiling for foreign institutional investment from $2.5 billion to $5 billion. In September 1993, the authorities lifted the monopoly on the foreign exchange brokerage business. In October 1993, the authorities lifted the ban against

converting foreign exchange capital raised by issuing corporate bonds and global depository receipts abroad into NTD. The authorities have not internationalized the NTD, however, and foreign exchange controls still exist in the form of restrictions on the amount of non-trade-related capital flows, ceilings on the amount of foreign exchange liabilities that banks can incur, and restrictions on the frequency of repatriation of capital and earnings by foreign investors.

Between January and October of 1993 the NTD depreciated against the U.S. dollar from NTD 25.4 to NTD 26.88 per dollar. During this period, the foreign exchange reserves of the CBC leveled off at $83.7 billion. During 1993 the CBC occasionally intervened in the foreign exchange market by selling U.S. dollars to slow the depreciation of the NTD.

3. Structural Policies

In January 1992, the Taiwan authorities reduced tariffs on a wide range of products. As of October 1993, however, tariff levels in Taiwan are still higher than levels that the authorities promised to reach under the Trade Action Plan that they launched in 1989. Taiwan's tariff and pricing structures on agricultural products in particular 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, chicken meat, duck parts, and some 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 mark-ups has generated retail food prices higher than those that would prevail in a more liberalized market. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB), which has a monopoly on the domestic production of cigarettes and alcoholic beverages, guarantees artificially high prices for tobacco, rice, grapes, and other products.

Residents of Taiwan pay a tax rate that varies from 6 to 40 percent. Nonresidents (i.e., residing in Taiwan for less than 183 days per year) pay a flat rate of 20 percent. The maximum tax rate for profit seeking enterprises is 25 percent. Sales of goods and services are subject to a five percent value added business tax, and the average effective import duty was 5.12 percent in 1992. To promote research and development and further automation, the Taiwan authorities implemented the Statute for the Promotion of Upgrading Industries in early 1991. The Statute provides for investment tax credits and accelerated depreciation. The Taiwan authorities are considering expanding the scope of the Statute to extend tax holidays to investment in Taiwan.

The authorities have set up the Fair Trade Commission to thwart noncompetitive pricing systems, but state-run firms can apply on a case-by-case basis to obtain five year exemptions from that provision. Large state-run enterprises account for nearly one-third of the economy: electricity, water, petroleum products, transportation, sugar, steel and the domestic production of cigarettes and alcoholic beverages are all either partly or entirely in the hands of state-owned firms.

4 Debt Management Policies

Taiwan is virtually free of foreign debt. By the end of June 1993, Taiwan's long-term outstanding external public debt totaled $440 million, compared to its gold and foreign exchange reserves in excess of $80 billion. These international reserves are sufficient to meet Taiwan's capital requirements for 15 months of imports. Taiwan's debt service payment in 1992 totaled $2 billion, accounting for only 2.3 percent of its total exports of goods and services. With these huge international reserves, Taiwan's central authorities and state-owned enterprises see little need to incur foreign debt, even with the spending anticipated for the Six-Year National Development Plan. As of June 30, 1993 the outstanding external public debt accounted for only three percent of the central authorities' total outstanding public debt. The difference that exists between Taiwan's current foreign debt and the authorities' statutory ceiling for such debt ($9.5 billion) represents a large pool of funds that could be used to finance U.S. exports.

The Taiwan authorities have begun to supply credit to the world. Since its inception in 1988 as an aid agency, Taiwan's International Economic Cooperation Development Fund has approved $242 million in foreign loans. In 1993, it offered low interest loans for the Philippines to convert Subic Bay into an industrial zone. Through a re-lending arrangement, it provided low interest loans to Vietnam to build highways and finance small businesses' imports from Taiwan. Taiwan has also made contributions to the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the Central American Bank for Economic Integration. In addition, Taiwan has permitted the Asian Development Bank to float bonds in Taiwan.

5. Significant Barriers To U.S. Exports

Import Licenses: Taiwan has continued to increase the number of items that are exempt from import licenses. As of October 1993, 6,020 import items did not require a license. Of the 2,971 items that did require some kind of licensing, 2,201 required only pro forma import visas from commercial banks and 770 required import licenses from the Board of Foreign Trade (BOFT). Two hundred and twenty-three items remain banned outright. Of the 770 BOFT items, 78 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.

Following passage of the Trade Act by Taiwan's legislature on February 14, 1993, Taiwan's trade authorities are drafting regulations to implement a system of "negative lists" that would reduce the number of items subject to licensing from 2,971 to no more than 800.

Financial and Legal Services: Foreign banks face discriminatory limits in terms of branching and NTD deposit-taking. Funding limitations based on foreign banks' local capitalization and ceilings on foreign exchange liabilities restrict foreign banks' scope of business. Currently only U.S. insurance firms may establish branches in Taiwan. A maximum of three life and three non-life firms may be approved each year (unused quota from one category may be applied to the other). Approvals for new products are lengthy and cumbersome. In the securities market, restrictions exist as well. Foreign ownership of companies listed on the Taiwan Stock Exchange (Taiex) is limited to ten percent (no more than five percent ownership is allowed for each institutional investor), while foreign individuals are prohibited from acquiring shares on the Taiex. Foreign law firms must be established as consulting firms or in partnerships with local firms.

Motion Pictures: Taiwan restricts the import of non-Chinese film prints to 14 per title and the simultaneous showing of such films to 6 theaters per municipality.

Standards, Testing, Labelling, and Certification: Taiwan lacks an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables, which sometimes impedes trade in these products. For example, stringent microbiological and chemical testing of imported food products such as turkey, pork, and game meat limits imports. Standards on preservatives for soft drinks preclude the import of certain beverages. Imported agricultural goods are routinely tested while local agricultural products usually are not. The authorities determine the purity of imported fruit juices using an amino nitrogen test, a purity standard that is uniquely stringent.

Investment barriers: Foreign investment is widespread and generally welcome. Foreign investment is prohibited in such industries as agriculture, petroleum refining, cable television, telecommunications, housing construction, and cigarette and liquor manufacture. Equity participation is limited in several other industries, including shipping, mining, and securities trading. Local content requirements, phased out in most industries over the past several years, remain in place for the automobile and motorcycle industries. Manufacturing firms in export-processing zones may sell up to 50 percent of their production on the local market after paying import duties. A ceiling of $5 billion exists for all foreign institutional investment, with each individual institutional investor being limited to $100 million. A foreign institutional investor can only remit capital three months after his funds have arrived in Taiwan and can only remit earnings once a year.

Procurement Practices: In theory, public procurement which exceeds NTD 50 million ($1.87 million) must go through the state-owned Central Trust of China. However, numerous exceptions to this policy have created a situation in which most procurement (by value) is not done by Central Trust of China. In addition, each agency has its own set of procurement regulations and practices (often unwritten), making the process confusing, cumbersome, and lacking in transparency. Furthermore, Taiwan commissioning agencies frequently impose unprofitable contract terms such as lengthy warranties, unlimited potential damages and contingent liabilities, and expensive bond requirements. Short lead times on major tenders further tend to restrict foreign participation. In the form of Industrial Cooperation Programs (ICP), the Taiwan authorities are extending the scope of offset provisions. The ICP require foreign vendors to propose programs that transfer technology, procure locally, and assist with marketing.

Customs Procedure: Taiwan has agreed to abide by the GATT Customs Valuation Code. In order to simplify procedures, Taiwan's customs authorities have implemented an automated clearance system for air cargo whereby firms and forwarders can process documents with Customs by computer link-up. The authorities hope to implement a similar automated system for sea cargo in 1994. Importers who open a deposit with Customs can clear merchandise first and pay tariffs later.

6. Export Subsidies Policies

Exports of rice and sugar enjoy indirect subsidies through guaranteed purchase prices higher than world prices. Producers of some fruit, poultry, and livestock receive financial assistance with packaging, storage, and shipping via marketing cooperatives and farmers' associations. Rice exports are primarily humanitarian aid and the small amount of sugar exported (produced solely by a state-run company) virtually all goes to the United States to maintain the U.S. quota for Taiwan. The TTWMB provides price supports for tobacco at prices four times higher than world market levels.

7. Protection of U.S. Intellectual Property

Taiwan has taken several steps in the past year to improve its protection of intellectual property rights (IPR). The American Institute on Taiwan—Coordination Council for North American Affairs (AIT–CCNAA) Bilateral Copyright Agreement, which Taiwan's legislature passed in April 1993, has greatly enhanced the protection of U.S. copyright holders. The Cable TV Law, passed in July 1993, provides a legal basis for regulation of the industry and for stronger enforcement actions against stations which show copyrighted films without authorization, a long-time problem in Taiwan. Improved enforcement efforts have sharply reduced the amount of pirated and counterfeit goods available in the domestic market and have helped decrease the amount of pirated software and compact discs illegally exported from Taiwan. These improvements in IPR protection reflect efforts made by the Taiwan authorities to implement the June 1992 AIT–CCNAA Memorandum of Understanding (MOU) on the Protection of IPR. Because the authorities have not implemented some aspects of the MOU such as passing a revised patent law, Taiwan remains on the Special 301 "Priority Watch List." Taiwan is not a party to any international IPR agreement but has stated its intention to conform to international IPR standards, including those in the Uruguay Round Agreement on the Trade Related Aspects of Intellectual Property (TRIPs).

Patent Issues: Taiwan and the U.S. reached an agreement in March 1993 on the protection of pharmaceutical and agricultural chemical products patented in the United States prior to the enactment of Taiwan's patent law in 1986. Taiwan's legislature is currently considering a draft of the revised patent law. AIT has expressed concern about changes made to the draft law in legislative committee, such as allowing parallel imports of patented goods, that would lower patent protection.

Trademark issues: Counterfeiting of famous name products, while decreasing over the past several years, remains a problem. Taiwan has asked for and received assistance from the U.S. Customs Service in setting up a monitoring system to prevent the export of counterfeit trademarked products. Taiwan's legislature adopted a revised Trademark Law on November 19, 1993. In general the new law is an improvement over the old one. However, it reduced the maximum criminal penalty for trademark infringement from 5 years to 3 years, a change which concerns U.S. industry. With the passage of the law, Taiwan will discard its antiquated trademark classification system and adopt the international system.

Copyrights: A computer software monitoring system, established in accordance with the June 1992 MOU on IPR, has helped to limit the export of pirated software from Taiwan, once one of the world's primary sources of pirated computer programs. Similarly, the establishment of an export licensing system for compact discs has led to a sharp reduction in illegal compact disc exports from Taiwan.

New technologies: The unauthorized retransmission of satellite signals by cable TV stations remains a problem. Taiwan courts have not yet taken a clear position on the issue. Taiwan is expected to complete draft legislation in 1994 to protect integrated circuit designs, industrial designs, and trade secrets.

The International Intellectual Property Alliance estimated that the piracy in Taiwan of software, movies, music recordings, and books cost U.S. companies $660 million in 1992.

8. Worker Rights

a. *The Right of Association.*—Taiwan's Labor Union Law (LUL) permits all workers to organize unions except for civil servants, education personnel, and defense industry workers. Biased enforcement by the authorities and antiunion measures taken by employers limit this right. Furthermore, the LUL and the Civic Organization Law require all civic organizations, including labor unions, to register. Most of Taiwan's 3,656 officially registered labor unions have close relations with management and the ruling Kuomintang (KMT) Party. The LUL restricts the emergence of competing labor unions and confederations by permitting only one confederation to be established in any one administrative district. In 1993, the authorities denied 17 unions in Taiwan's banking sector permission to establish a national federation.

Since the lifting of martial law in mid-1987, some workers have defied the LUL and formed quasi-formal federations, such as the "Taiwan Labor Front," the "Brotherhood Alliance," and the "National Federation of Independent Labor Unions." Leaders of these unregistered unions can face a maximum two-year jail sentence.

b. *The Right to Organize and Bargain Collectively.*—According to the LUL, the Collective Agreementr Law, and the Law Governing the Handling of Labor Disputes, workers have the right to organize and bargain collectively. In practice, however, employers reportedly fire and lock out workers who try to exercise that right. Legal restrictions on the right to strike and regulations stipulating involuntary mediation and arbitration further weaken workers' positions in collective bargaining. To overcome these restrictions, workers occasionally resort to such technically illegal measures as work-stoppages and mass leave-taking. As of June 1993, only 294 formal collective agreements were in force. Since only large-scale enterprises make such agreements and less than five percent of Taiwan's enterprises fall in this category, the proportion of workers covered remains small.

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. There are reports of forced or compulsory labor involving prostitution.

d. *Minimum Age for Employment of Children.*—The LSL sets the minimum age for employment at 15 (i.e., after compulsory education ends). As of May 1993, there were reportedly about 9,000 child workers between the ages of 15 and 16 in manufacturing industries.

e. *Acceptable Conditions of Work.*—The LSL provides for a 48-hour work week (eight hours per day, six days per week), leave, overtime pay, severance and retirement pay, and a minimum wage. On August 16, 1993, the authorities raised the minimum monthly wage 7.97 percent from NTD 12,365 ($461) to NTD 13,350 ($498). In 1992, the average industrial monthly wage was NTD 29,736 ($1,110). In addition to wages, employers often provide such fringe benefits as meal and transportation allowances. The law requires employers to pay 70 percent of workers' insurance premiums.

f. *Rights in Sectors With U.S. Investment.*—In terms of wages and other benefits, U.S. firms generally provide model work conditions. Worker rights do not vary significantly by industrial sector. Working conditions, however, tend to be relatively better in the textile and electronics industries and relatively worse in the footwear and sporting goods industries.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,806
Food & Kindred Products	66	
Chemicals and Allied Products	608	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	89	
Electric & Electronic Equipment	901	
Transportation Equipment	(1)	
Other Manufacturing	61	
Wholesale Trade		469
Banking		327
Finance and Insurance		158
Services		59
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,870

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

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

THAILAND

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	[1] 1992	[2] 1993
Income, Production, and Employment:			
Real GDP (1988 prices)	82,602	88,976	96,047
Real GDP Growth Rate (pct.)	8.2	7.4	7.5
GDP at Current Prices	98,315	110,236	123,320
By Sector:			
Agriculture	12,413	13,096	N/A
Energy and Water	2,096	2,520	N/A
Manufacturing	27,776	31,227	N/A
Construction	6,478	7,342	N/A
Rents	2,805	3,007	N/A
Financial Services	5,295	6,442	N/A
Other Services	12,781	14,248	N/A
Government, Health and Education	3,389	4,067	N/A
Net Exports of Goods and Services	−1,524	−1,850	N/A
Per Capita GDP (current $)	1,630	1,807	2,115
Labor Force (000s)	31,790	32,390	33,000
Unemployment Rate (pct.)	3.1	3.1	3.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	19.8	15.6	16.8
Base Interest Rate	14.0	11.5	11.25
Personal Savings Rate	12.6	N/A	N/A
Wholesale Inflation	6.9	0.2	[3] 1.1
Consumer Price Index	5.7	4.1	3.2
Exchange Rates (B/US$ avg.):			
Official	25.52	25.40	25.32
Parallel	([4])	([4])	([4])
Balance of Payments and Trade:			
Total Exports (FOB) [5]	28,233	32,102	19,858
Exports to U.S. [6]	6,046	7,000	2,965
Total Imports (CIF) [5]	37,923	40,181	25,833
Imports from U.S. [6]	3,988	4,000	2,257
Aid from U.S (FY)	12	14	7
Aid from Other Countries (FY)	123	N/A	N/A
External Public Debt (long term)	12,103	12,517	N/A
Debt Service Payments (paid)	3,578	4,382	N/A
Gold and FOREX Reserves	18,400	21,200	23,900
Trade Balance [5]	−9,690	−8,079	−5,975
Balance with U.S. [6]	2,058	3,000	708

N/A—Not available.

[1] Preliminary.
[2] Estimates based on data available in October 1993.
[3] For 1993, January to June.
[4] Not applicable.
[5] For 1993, January to July.
[6] For 1993, January to May.

Sources: Bank of Thailand; Ministry of Commerce; National Economic and Social Development Board; U.S. Department of Commerce; and Embassy estimates.

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, this sector now accounts for only 12 percent of GDP. Manufacturing, wholesale and retail trade, and service industries are the most rapidly growing sectors and now account for almost two-thirds of Thailand's GDP.

Real economic growth averaged over ten percent per annum from 1987 to 1991. Economic growth and investment have slowed modestly since, and the events of May 1992, which culminated in political violence, temporarily undermined domestic and foreign investor confidence. However, the Thai economy remains fundamentally strong. Net recorded flows of foreign direct investment topped $2 billion in 1992, up slightly from the year before. Exports continued to expand during the first eight months of 1993, up nine percent over the same period in 1992. Barring further domestic or external shocks, Thailand should maintain solid economic growth in the seven to eight percent range for the foreseeable future.

The Chuan government, which took office following free elections in September 1992, has maintained the general direction of economic liberalization, making modest additions in some areas. It has also adressed imbalances created through rapid industrialization by emphasizing rural development and reducing disparities in the distribution of income.

Rapid growth has had some drawbacks: infrastructure bottlenecks remain a problem, and environmental degradation has worsened considerably in recent years. Thailand's infrastructure bottlenecks and shortages of skilled personnel will limit the pace of future growth. Metropolitan Bangkok's public works (communications facilities, ports, roads and mass transit, and electricity grid) are already overtaxed and will come under increasing pressure. A drought in northern provinces may also force reductions in agricultural output dependent on irrigation, and may affect water supplies to the Bangkok metropolitan area in 1994. Wage gains continue substantially to outpace the growth of the consumer price index. The level of education of the work force will have to be raised to maintain Thailand's development pace and competitiveness with neighboring countries with lower wage rates.

For the past six years, Thailand has had a substantial government budget surplus as revenues were fueled by growth and government investment expenditures for major infrastructure projects lagged. For 1992 the government's overall surplus reached $3 billion, or 13 percent of GDP.

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, and especially the recent appreciation of the Japanese yen, 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 pre-approval 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 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 remains in surplus due to 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 over a 15-year period as part of the ASEAN free trade area which began in January 1993. However, implementation has been slower than planned. Thailand's trade relations have traditionally been oriented to-

ward 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 largely implemented a major reform of its taxation system. In 1992, the government increased personal income tax deductions and lowered the top marginal tax rate to 37 percent, and the corporate income tax rate was unified at 30 percent. On January 1, 1992, Thailand implemented a value-added tax (VAT) system replacing a multi-tiered business tax with a single rate of seven percent on value added. U.S. transportation and shipping companies in Thailand are at a competitive disadvantage vis-a-vis firms from third countries which "zero rate" Thai companies under their own VAT systems. As the United States does not have a VAT system, U.S. firms are "exempt" from the Thai system and unable to claim rebates for taxes paid on inputs. Firms which are "zero-rated" are able to offset VAT paid on inputs in paying their own taxes.

Thai financial authorities have taken additional steps to open up the commercial banking system. As noted, foreign exchange controls have been liberalized, and 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. 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. In March 1992 the Finance Ministry licensed seven new mutual fund companies, ending a 17-year monopoly. The Finance Ministry is considering allowing more foreign banks to establish branches, but no decisions have been announced. Foreign banks are allowed to participate in the Bangkok International Banking Facility (BIBF), created to develop an offshore banking industry in Thailand. Thai officials are considering allowing foreign banks participating in the BIBF additional access to the Thai banking market.

4. Debt Management Policies

Domestic credit is expanding, helping fuel some of the growth in consumption in the economy. Domestic credit expanded 18 percent in 1992 and is expected to grow by 20 percent this year. The prime rate has declined from 14 percent in 1991 to 12 per cent in 1992 and 11 percent in 1993. Rates for one-year fixed deposits have declined from 10 percent to 8.5 percent over the same period. Due to the disparity between relatively high domestic rates and declining international lending rates, Thai private sector external borrowing has grown rapidly since 1990, when private external debt was almost $14 billion, reaching $20 billion in 1991 and $24 billion in 1992. Net capital inflows, almost completely via the private sector, totalled $8 billion in 1992. Total public sector debt was about $13 billion in 1991 and 1992. The total debt service ratio (including private and short-term debt) was ten percent in 1991 and 11 percent in 1992; the public sector debt service ratio is about four percent.

5. Significant Barriers to U.S. Exports

Import duties of 30 to 60 percent ad valorem and/or specific taxes of an equivalent or higher rate are currently assessed on most agricultural imports, especially processed food products, and many manufactured goods, greatly limiting the market for these goods. The Thai government is pursuing a broad reform of its import regime, and customs duties overall will be significantly lower, but it remains unclear how agricultural products will be affected. Thailand has also offered to lower duties on some agricultural products as part of the Uruguay Round.

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 can pose an important barrier because of its cost, duration, and demand for proprietary information. Licenses cost baht 15,000 (about $600) 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 reg-

istered as "specific controlled food items" at an additional cost of baht 5,000 ($200). Although the Thai Food and Drug Administration has made efforts to streamline the registration process, it usually requires three months or more 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. Import licensing is also used to protect intellectual property rights and to comply with international obligations. Import licensing is required for some 37 categories of items. In the food products area, licensing requirements remain for powdered skim milk and fresh milk, potatoes, soybeans and soybean oil, refined sugar, and corn for animal feed, among others.

Largely by restricting foreign bank entry, branching, and acquisition of Thai banks, Thai authorities have limitited foreign banks to a roughly five percent share of the Thai banking market (as measured by commercial bank assets). Although an existing foreign bank license was bought in 1984, no new foreign bank licenses have been issued since 1978. However, Thai authorities regularly approve representative offices of well-established foreign banks. In aggregate, foreigners are limited to a maximum 25-percent shareholding in any Thai bank. In addition, no person or group of related persons, whether Thai or foreign, may hold more than five percent of the shares of any 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.

Foreign branches (except for certain grandfathered branches) are legally precluded from establishing subbranches in Thailand. Because Thai officials considered offsite automatic teller machines (ATM's) equivalent to branches, foreign banks were precluded from joining domestic Thai bank ATM systems or establishing their own systems. However, Thai officials have said that these regulations are being revised to allow foreign banks to join domestic ATM systems.

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. A 1979 law limits all foreign ownership of Thai finance and credit foncier companies to 25 percent; however, a maximum of 40 percent participation in firms already licensed when the law was enacted is permitted.

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; and tax certificates for rebates of taxes and import duties on inputs for products made for export. Thailand has established an export-import bank, which will take over some of these functions, particularly the packing credit program, when it begins operations early next year. Thai officials say that Thailand is considering acceding to the GATT Subsidies Code.

7. Protection of Intellectual Property

While improved protection for U.S. copyright, patent and trademark holders remains one of the most prominent bilateral trade issues, Thailand has made significant progress in intellectual property protection in the past year. Enforcement of existing copyright laws has been more vigorous, and the government has stated its intention to bring its copyright regime into conformity with international standards and to provide protection through administrative means for certain pharmaceutical products not entitled to full patent protection under Thai law. In recognition of that progress, Thailand's designation as a "priority foreign country" under the special 301 provisions of the 1988 amendments to the Trade Act of 1974 was revoked in September 1993. However, Thailand remains on the "priority watch list."

Efforts on the part of the Thai Government to enforce existing copyright laws have improved since 1991, when most enforcement activities against intellectual property infringement were centralized. In December 1991, the U.S. formally concluded a section 301 investigation of Thailand's copyright enforcement in response to a petition filed by three U.S. trade associations. Efforts to reduce copyright piracy

increased significantly in early 1993, with raids by police expanding to cover computer software and into the provinces. U.S. industry associations have been instrumental in securing more energetic enforcement. While significant improvements have been made, especially during 1993, copyright piracy of audio and video tapes and computer software remains extensive. The government of Prime Minister Chuan Leekpai has publicly stated its commitment to continuing and vigorous enforcement.

There is concern that the current Thai copyright law does not specifically protect computer software as a literary work, provides inadequate penalties, and contains overly broad exceptions for unauthorized use. The Thai government has pledged to address these concerns in proposed legislation for a new copyright law, which the parliament was considering in late 1993. The Thai Government has said that it aims to bring its copyright regime into conformity with the international standards of the draft text on Trade Related Aspects of Intellectual Property Rights (TRIPs) in the Uruguay Round and with the provisions of the Bern Convention (Paris Act).

Concerns remain that Thailand's legal procedures do not provide adequate deterrence against copyright and trademark infringement. The government has established a special division in the courts to concentrate on intellectual property matters and has proposed the creation of an entirely separate intellectual property court, with judges trained in intellectual property matters. Thai officials expect that these measures will speed up consideration of copyright cases and improve the efficiency of the legal system in dealing with them.

Legislation extending patent protection to pharmaceutical products and agricultural machinery and increasing the length of protection to 20 years became effective September 30, 1992, and in October 1992, the U.S. 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. Bilateral discussions continue on ways to resolve remaining U.S. concerns over Thailand's patent protection. Chief among these are finalizing measures to provide the transitional or "pipeline" protection lacking in Thai law.

8. Worker Rights

a. *The 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 passed the State Enterprise Labor Relations Act (SELRA) which denied state enterprise workers many of the labor association rights they had enjoyed under the 1975 law. The Chuan government, which came to office in 1992, promised to amend the SELRA. In 1993, new legislation, drafted in consultation with state enterprise labor leaders, was being considered by the government.

In 1991 the AFL–CIO filed a petition to remove GSP benefits from Thailand for failure to provide internationally recognized worker rights. The review was extended while the Thai government undertook consideration of appropriate changes in labor laws and regulations. A final decision will be made at the end of the 1993/94 review.

b. *The 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. There are about 600 private sector unions registered in Thailand. Until the SELRA is amended, state enterprise workers, like civil servants, may not form unions, but are allowed membership in employee associations. The law currently 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. However, although the government has announced steps to put an end to forced or compulsory prostitution, credible reports indicate this remains a problem.

d. *Minimum Age for Employment of Children.*—The minimum employment age in Thailand is 13. 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 those of most multinational firms, generally meet international health and safety standards—though a recent fire in a factory producing toys for export in which nearly 200 workers were killed demonstrates significant gaps in enforcement. The government has sought to address those gaps by increasing the number of safety inspectors and by increasing the penalties for violations. Eight-hour days are the norm, and wages and benefits in export industries usually exceed the legal minimum. However, in Thailand's large informal sector, wage, health and safety standards are often ignored. Most industries have a legally mandated 48-hour maximum work week. 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.*—1U.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 nonexistent among multinational firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		774
Total Manufacturing		783
Food & Kindred Products	63	
Chemicals and Allied Products	168	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	213	
Transportation Equipment	0	
Other Manufacturing	60	
Wholesale Trade		254
Banking		230
Finance and Insurance		(1)
Services		47
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,459

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

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

EUROPE AND NORTH AMERICA

THE EUROPEAN UNION

1. General Policy Framework

The European Union (EU) exercises supranational authority over some aspects of economic policy of the twelve Member States (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom). The EU has responsibility 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. EU 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.

On November 1, 1993 the Treaty on European Union ("the Maastricht Treaty") entered into force. The Treaty sets forth a blueprint for closer economic and political integration of the Member States and establishes a schedule and institutional framework for slowly increasing EU competence in macroeconomic policy, national security, and social issues.

2. Exchange Rate Policy

Under the Maastricht Treaty, the European Union (EU) intends to establish an Economic and Monetary Union (EMU) with a common monetary and exchange rate policy no later than 1999. During the second stage of EMU, which begins on January 1, 1994 with the establishment of the European Monetary Institute (EMI), the 12 Member States will continue to coordinate their exchange rate policies through the European Monetary System (EMS) and, specifically, its Exchange Rate Mechanism (ERM). The EMI will facilitate and monitor implementation of these arrangements. During the second stage of EMU, Member States will retain full authority to set monetary policies.

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

The EMS and ERM are not aimed at influencing trade flows with the United States or other third countries and are consistent with the Articles of Agreement of the International Monetary Fund. 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 EU and of dollar weakness combined with a U.S. trade surplus with Europe.

3. Structural Policies

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

Regulatory Policies—Single Market Program

Overview: The European Union's "1992" Single Internal Market was officially inaugurated on January 1, 1993 with the disappearance of most intra-EU border controls on movement of goods, services, capital and people. While the legislative program is largely complete, gaps remain. Measures affecting certain specialized types of trade, such as that in precious metals, CITES-listed plant and animal species,

as well as dual-use goods, have not yet been adopted. The Schengen Accord on removing controls on people, agreed upon by nine member states, is expected to enter into force in February 1994; passport controls will continue on entry into Denmark, Ireland and the UK. Reconfiguration of European airports to allow lifting of passport controls on intra-EU flights should be complete by December 1993. 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 fully into effect. Transitional quotas are also still in effect on certain kinds of intra-EU road transport. Nor are all directives in effect fully implemented by Member States; the average implementation rate stood at about 80 percent in October 1993.

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

Environmental Measures: Pending environmental measures may also affect the trade and business climate. Among them, a proposal for a CO2/energy tax would substantially raise energy costs for industry, although progress on the plan is slow. Another draft directive could raise producer costs by mandating extensive recycling of 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 EU.

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 programs where practicable. The United States believes this provision is contrary to the General Agreement on Tariffs and Trade (GATT).

The United States and the European Union held intense negotiations within the context of the Uruguay Round in an attempt to resolve the problem. A solution, however, proved impossible to achieve by the December 15 deadline, and the U.S. and EU, therefore, put aside the issue in order to enable the Round to proceed. The U.S. remains committed to continued work to achieve our objectives with the EU, i.e., to promote more open trade in audiovisual services and to ensure freedom of choice for consumers. The U.S. has preserved its ability to take Section 301 action against the EU on the issue.

Telecommunications: U.S. exports of telecommunications services and supplies to the EU are unfairly constrained by the method of implementation of a variety of EU policies. The United States has requested that the Union ensure that non-EU competitors have access to reserved services on an equal basis with EU competitors once those services are liberalized (i.e. voice telephony). Two other impediments to telecommunications goods and services are intellectual property rights protections (European Telecommunications Standards Institute, or ETSI/Standards) and governmental procurement practices. These issues are addressed later in this report.

Standards, Testing, Labelling and Certification: The U.S.-EU dialogue on standards, testing and certification has, on balance, been positive. The European standardization bodies have in general committed themselves to adopting international

standards, although this varies depending on the body and the need. However, many non-European interests still find participation in European standardization bodies difficult and/or frustrating (i.e. limited access to the European Committee for Standardization/European Committee for Electro-technical Standardization through European industry associations, and limited voting power in ETSI). This frustration can also be felt at the international level in the International Standards Organization (ISO) and the International Electrical Committee, where the EU stills wields 12 votes and the U.S. only one.

Central to standardization policy in the Union is the harmonization of requirements for "regulated" products, including products as diverse as toys and earth moving equipment. In order to circulate freely in the Single Market, these products will have to carry the CE Mark, denoting conformity to these harmonized requirements. It is anticipated that fifty percent of U.S. exports to the EU will eventually be required to carry this CE Mark. While the harmonization of these requirements and the drafting of European standards is supposed to facilitate market access, the overall CE Marking program has fallen behind schedule largely due to implementation and standardization problems.

A number of these "regulated" or CE Marking products are also candidates for Mutual Recognition Agreements (MRA's) between the U.S. and the EU. An MRA would allow manufacturers in the U.S. to have their products tested and certified to the EU requirements by recognized Notified Bodies in the U.S., and vice versa. MRA'S would reduce conformity assessment costs and the time it takes to bring a product to market. The U.S. and the EU met in October 1992, and then again in June 1993, for preliminary discussions. The Commission expects to begin negotiations with three countries per year. In November 1993, the EU selected the United States as a priority country. The United States and the EU have subsequently agreed that the negotiations, scheduled to start in 1994, will focus on the following areas: pharmaceuticals, telecommunications, electrical products, and lawn mower safety. Preparatory discussions will also take place pending adoption and implementation of EU directives on medical devices, pressure vessels, and recreational craft.

ETSI/IPR: A particularly disturbing development related to EU standards, EU intellectual property policy and competition policy has occurred in ETSI. In March 1993, ETSI adopted an IPR and standardization policy that differs significantly from those long considered the norm (ISO and International Telegraph and Telephone Consultative Committee); additionally, it is considering measures which would expel ETSI members from the organization for failing to sign the "Undertaking" documentation confirming acceptance of this policy. According to industry, the IPR policy includes a number of characteristics that will prevent U.S. entities from signing, including: de facto compulsory licensing, extraterritoriality, binding arbitration and royalty disclosure. The inability of U.S. industry to participate in the standards development process in ETSI will seriously impact their market penetration in Europe. The U.S. Computer and Business Equipment Manufacturer's Association (CBEMA) has lodged a complaint with the European Commission's Competition Directorate (DG IV) asserting that the ETSI policy contravenes Articles 85 and 86 of the Treaty of Rome. The United States Government is consulting with U.S. business to determine the most effective means of dealing with this critical issue.

Government Procurement Practices: On January 1, 1993, the European Union's "Utilities Directive" came into force, liberalizing procurement by public bodies, and private bodies operating on the basis of special or exclusive licenses, in telecommunications, water, energy and transport. However, this Directive permits discrimination against bids that do not meet a 50-percent EU-content requirement and requires a 3-percent price preference for EU bids over equivalent third-country bids. The U.S. announced that it would take retaliatory action under the Omnibus Trade and Competitiveness Act of 1988 if the Directive went into effect without the extension of national treatment to U.S. products. This was partially averted when, on May 25, 1993, USTR Kantor and Commissioner Brittan signed an agreement eliminating discrimination between the United States and the EU in the area of electrical utilities and granted each other national treatment on most central government procurement including services and construction procurement. However, they were unable to come to a similar agreement for telecommunications and EU discrimination against the United States under the Utilities Directive continues in the telecommunications sector. As a result, the U.S. retaliated against the EU, preventing EU firms from bidding at all on contracts not covered by the bilateral agreement or the Government Procurement Code. The EU countered this move with mirror image retaliation of its own against the United States.

In May 1993, the USTR and the EU signed a memorandum of understanding that called for the parties to jointly fund a study of procurement opportunities that would arise from their respective offers and requests in the GATT Code negotiations

in order to facilitate the ongoing negotiating process. In October 1993, the U.S. tabled a new offer that included sub-federal procurement entities. The EU, as agreed in the May Memorandum of Understanding, removed telecommunications from the negotiating package, but fleshed out an earlier offer by detailing over 12,000 national and local entities that would be part of an eventual agreement.

Other Significant Barriers to U.S. Exports:

Leghold Traps: A ban on imports and domestic sales of fur from animals caught in leghold traps will come into force in 1995 unless agreement is reached on international standards for humane trapping. This will stop many U.S. fur exports to the EC.

Animal Testing of Cosmetics: An amendment to the Cosmetics Directive will ban sales in the EU of cosmetics whose ingredients were tested on animals from 1998, unless the Commission determines at that time that there are still no feasible alternatives. If such a ban goes into effect, it would constitute a non-tariff trade barrier for U.S. cosmetics exporters.

Data Privacy: The European Commission has proposed a broad package of legislation which would harmonize laws in the EU 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 EU or the transfer of data between the United States and the Union. The latter case could even prevent intra-company data transfer. These concerns are shared by EU industry. U.S. experts will continue to monitor this issue and consult with EU officials.

Wine Certification and Enological Practices: U.S. wine exports continue to face uncertain market access into the European Union. The U.S. and EU have an agreement whereby U.S. wine producers can use wine treatment practices which are not approved in the Union, and U.S. wine exporters can use a simplified export certificate. The Union continues to link these access questions to the U.S. commitment for greater legal protection for EU wine labels in the U.S. The U.S. has expressed its willingness to discuss greater protection for Union wine labels within the rule making process of the U.S. government. The current agreement will expire in April 1994. In its place, the U.S. seeks to substitute an agreement that makes permanent both the certification system and the acceptance of U.S. wine treatment practices.

Whiskey: Under an agreement being negotiated with the EU, Bourbon and Tennessee Whiskeys would benefit from improved product name protection throughout the EU. In return, six EU products (Scotch Whiskey, Irish Whiskey, Cognac, Armagnac, Calvados, and Brandy de Jerez) would receive strengthened product name protection in the U.S. market. The EU, however, has not agreed to cover a third product, American Blended Whiskey (ABW) in the new agreement because the current EU distilled spirits regulation maintains that ABW can not be labeled a whiskey product due to insufficient aging and presence of neutral spirits. ABW is effectively barred from the EU market. The U.S. Government will continue to seek other appropriate remedies to restore access for ABW into the EU market.

Corn Gluten Feed: The Blair House Accord includes a text addressing technical problems related to the definition of corn gluten feed that had arisen from the EU's interpretation of the original GATT zero binding on the product and the Union's implementation of a subsequent Memorandum of Understanding which laid down the chemical parameters and analytical methods to be used by EU Customs officials in their application of the zero binding. Although the Commission approved the Blair House corn gluten feed text earlier this year, it has yet to take the steps necessary to implement the agreement. Since August 1992, EU Customs officials have been operating under instructions to suspend the collection of duties on all corn gluten feed imports. Notwithstanding the unambiguous terms of this so-called cease-fire arrangement, corn gluten feed imports have been reclassified under dutiable headings by the Customs authorities of several EU member states. The Commission recently signalled its intention to further postpone implementation of the Blair House text when it adopted a proposal to extend the cease-fire until June 30, 1994.

Malt Sprout Pellets: As part of the Blair House Accord, the EU agreed to create a tariff rate quota for imports of malt sprout pellets in order to address a dispute that had grown up over the correct classification of this product under a GATT zero binding.

Third Country Meat Directive and Hormone Ban: A November 1992 exchange of letters laid down the terms for an improved working relationship between the U.S. and EU meat inspection services and paved the way for the approval earlier this year of a number of U.S. slaughterhouses. Under the terms of the agreement, this is seen as an interim stage in a process leading ultimately to certification by the USDA that U.S. establishments meet EU standards.

Despite the progress made toward resolving the dispute over meat inspection, U.S. exports of beef and beef products to the Union will continue to be severely limited as long as the EU's hormone ban remains in place. This ban took effect January 1, 1988. It applies to meats and meat products imported into the EU after January 1, 1989, with the exception for meats for pet use. The ban has caused trade damage to the U.S. estimated at $97 million a year. In response, the United States imposed 100-percent tariffs on imports of EU agricultural products valued at $97 million. This level of retaliation was adjusted downward in July and December 1989 to reflect a partial resumption of U.S. exports of meats that are not treated with hormones.

EU Ban on Bovine Somatotropin (BST): An EU moratorium on the use and marketing of Bovine Somatotropin (BST), a synthetic protein that stimulates increased milk production in cows, has been in effect since April 1990. In December 1993, the EU Council of Ministers voted to extend this moratorium through December 31, 1994, in order to examine the implications of the ban, its consequences on trade, and the experience of countries where the use of BST is authorized. The EU has also taken the unusual step of barring individual Member State licensing of BST, requiring license approval at the Union level.

Scientific and technical study to date in both the U.S. and Europe has found no health or other hazards in the use of BST, and the U.S. Food and Drug Administration has approved its use in the U.S. However, the Commission as well as European consumer groups, critics of biotechnology, and small farmers (who fear increased supplies of cheap milk) oppose its use. An important factor in the Commission's decision is the impact increased milk production resulting from the use of BST will have on the EU's budget for farm price supports. Because of the high costs of farm subsidies under the CAP, the EU already has strict milk production quotas.

Given the fact that scientifically, the U.S. Food and Drug Administration review has established that the drug does not pose a threat to human or animal health, the U.S. has serious trade concerns with the EU's BST policy. These concerns are based not only on the inability of U.S. firms to market BST in EU countries, but also on how a BST ban would affect the export of U.S. dairy products to the EU.

Oilseeds: A central element of the Blair House Accord is the text on oilseeds which establishes a ceiling on the area sown to subsidized oilseed crops in the Union. In December 1993, the EU Council adopted legislation implementing the key provisions of the agreement.

Shipbuilding Subsidies: Members of the EU provide subsidies and other forms of assistance to their shipbuilding and repair industry. The European Commission sets ceilings for subsidies annually. In 1993, for a second consecutive year, the ceiling was nine percent of gross investment. This 9-percent subsidy ceiling has been renewed through the end of 1994. 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, USTR undertook to negotiate a multilateral agreement in the OECD to eliminate all subsidies for shipbuilding by the OECD member countries. Negotiations were suspended in April 1992 but resumed in September 1993 on the basis of a new compromise proposal. There are three major outstanding issues that are of concern to the United States: home credits, injurious pricing, and export credits.

Quota and Import Licensing for Bananas: On July 1, 1993 the European Union implemented an import quota regime for bananas that is administered using import licenses. The EU developed the new regime as part of its single market exercise. U.S. companies have seen a significant erosion of their market share in Europe because the two million ton quota that applies to imports of bananas from Central and Latin America is significantly smaller than recent import volumes. Moreover, the licensing system includes elements that discriminate against third country importers to the benefit of Union firms. The U.S. government is supporting Central and Latin American banana exporting countries who have brought a GATT panel case against the EU banana regime. The panel is expected to issue its ruling in mid-January 1994. The United States is also working with the Commission to try to ensure that the licensing system does not unfairly penalize U.S. exporters.

Tariffs: In general, EU tariffs are not considered to be a major barrier to U.S. industrial exports. EU variable levies, on the other hand, present considerable tariff-like barriers to U.S. agricultural exports. There are exceptions in other areas as well where EU 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).

Coal Subsidies: Legal authority under the European Coal and Steel Community Treaty for the continued payment of subsidies to Member States' coal industries will

run out on January 1, 1994. The European Commission is currently trying to devise new rules for coal subsidization, to go into effect on that date. Continuation of generous coal subsidies is both costly to the EU member states and an effective restraint on European imports of U.S. coal.

Based on press reports, it seems that the new EU coal subsidies regime that will go into effect on January 1, 1994 will contain a call for the gradual reduction of subsidies from 1994 to 2002. The new draft plan would allow EU member states to continue to offer subsidies to unprofitable coal enterprises, in order to cover the difference between production costs and the market price for coal. Under the EU plan, these subsidies must not produce prices for EU coal lower than the world price. Moreover, those member states intending to offer their coal enterprises subsidies between 1994 and 2002 will have to submit to the Commission plans for the modernization, rationalization, and restructuring of the coal industry. The new subsidies system will also probably contain a stiff transparency requirement designed to reveal more clearly to EU taxpayers the extent of subsidization in the EU coal industry.

6. Export Subsidy Policies

Agricultural Subsidies: Export subsidies (also known as export restitutions or refunds) are widely used by the EU to offset competitive disadvantage to EU agricultural exports caused by high EU internal support prices. Export subsidies enable the EU 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 exports, runs on the order of billions of dollars. Export subsidies, however, were subject to disciplines as a result of the Uruguay Round. The European Union 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 EU. The Commission believes that completion of the Single Market requires harmonization of the scope of IPR protection so that trade and investment within the Union will not be distorted based on differences in the scope of intellectual property protection among the member states. The Commission has proposed directives in certain areas where inadequate IPR protection is seen as hindering development of EU industry (biotechnology, data bases) and has adopted directives covering software, pharmaceuticals, and semiconductor topologies. Planned legislation will continue to harmonize IPR at the EU level, and eventually Union patent, trademark, and industrial design regimes will exist.

In the copyright area, the EU Council has adopted directives establishing rental and lending rights, harmonizing neighboring rights and the term of protection, and creating a system for protecting works transmitted by satellite and cable retransmission. It remains to be seen whether the directives will give full protection to U.S. right-holders and whether U.S. film producers and the works-for-hire system will be fully respected.

The EU adopted in May 1991 a directive requiring member states to protect software as a literary work within the meaning of the Bern 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 allowing decompilation carried out under certain circumstances for purposes of obtaining information necessary for inter-operability. Although U.S. industry was satisfied with the final compromise reached by the Council, the U.S. government will closely monitor implementation of the directive to ensure that U.S. right-holders are protected.

U.S. companies are concerned that policies adopted by the European Telecommunications Standards Institute (ETSI) in March, 1993 jeopardize valuable intellectual property rights. See discussion above in Section 5.

8. Worker Rights

Worker rights are discussed in the individual country sections of the report.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount
Petroleum	19,225

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Total Manufacturing		88,841
Food & Kindred Products	7,746	
Chemicals and Allied Products	24,287	
Metals, Primary & Fabricated	4,162	
Machinery, except Electrical	16,568	
Electric & Electronic Equipment	5,836	
Transportation Equipment	10,511	
Other Manufacturing	19,731	
Wholesale Trade		20,008
Banking		6,929
Finance and Insurance		50,895
Services		9,395
Other Industries		5,242
TOTAL ALL INDUSTRIES		200,535

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

ARMENIA

Key Economic Indicators

[Billions of Russian rubles unless otherwise noted]

	1991	1992	1993[1]
Income, Production and Employment:			
Real GDP (1991 prices)	15.920	7.593	4.973
Real GDP growth (pct.)	−8.8	−52.3	−34.5
GDP (at current prices)	15.920	59.068	329.27
By Sector (pct.):			
Agriculture	19.7	31.8	49.2
Industry	34.8	37.6	22.3
Construction	11.1	4.3	4.1
Transportation	2.5	1.3	0.8
Trade and Catering	3.9	3.3	1.5
Other	47	21.5	22.1
Real Per Capita GDP ('91 rubles)	44,070	20,605	13,314
Labor force (000s)	2,054,4	2,194,5	2,080,0
Unemployment Rate (pct.)	N/A	3.4	5.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	N/A
Base Interest Rate	N/A	8–10	46.5
Personal Savings Rate	N/A	9–10	N/A
Retail Inflation	274.1	728.7	930.0
Wholesale Inflation	N/A	N/A	990.0
Consumer Price Index	175	828.7	940
Exchange Rate (Rubles/$):			
official[1]	N/A	400	2,020
parallel[1]	N/A	400	2,050
Balance of Payments and Trade:			
Total Exports FOB	2.661	14.905	53.758
Exports to U.S	0	0.206	0.318
Total imports CIF	4.505	28.204	40.816
Imports from U.S.[2]	0	0.203	2.608
Aid from U.S. ($ million)	N/A	[3] 45.1	[4] 93.2

Key Economic Indicators—Continued

[Billions of Russian rubles unless otherwise noted]

	1991	1992	1993[1]
Aid from Other Countries (million U.S. dollars)	N/A	N/A112.5	
External Public Debt (mil $)	N/A	N/A	220
Debt Service Payments (paid)	N/A	N/A	0
Gold and Foreign Exchange Reserves ($ million)	N/A	15,9	N/A
Trade Balance[2]	−1.844	−13.299	12.941
Balance with U.S.[2]	0	0.003	−2.290

N/A—Not available.

[1] Data for the first nine months of 1993.

[2] Grain and fuel imports not included.

[3] Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

[4] Transportation costs not included.

Figures are from the Armenian Ministry of Economy, the Armenian State Statistical and Analysis Committee, the Parliament Committee on Finances, and from international financial institutions.

1. General Policy Framework

In 1993, Armenia continued its halting transition to a market economy. An economic blockade by neighboring Azerbaijan and Turkey and the frequent interruption of energy and freight shipments passing through Georgia greatly hindered economic development. A continuing stand-off on economic policy between the Armenian parliament and the government resulted in the enactment of only modest economic reform legislation in 1993. Parliament did manage to adopt an ambitious social and economic development program, which increased government assistance to export-capable industries, attempted to aid the private sector, and attempted to stabilize personal income. The program has been largely unsuccessful. As a result, Armenia's economic crisis continued unabated in 1993. Shortages of electricity, fuel, raw materials, and expensive, unreliable transport routes have brought many of the country's factories to a virtual halt. Eighty to ninety percent of the labor force remains either idle or under-employed. Gross Domestic Product continued its steep decline, to an estimated one-third of its 1991 level, while the inflation rate, at an estimated 930–990 percent per annum, remained stubbornly high.

The continued blockade has radically reduced the importance of the industrial sectors to Armenia's shrunken economy. An ambitious farmland privatization program has helped propel agriculture to the economic forefront.

During the initial six months of 1993, Armenia remained part of the ruble zone. In mid-1993, Russia withdrew all pre-1993 banknotes from circulation and refused to include the other members of the CIS in the new ruble zone. With no currency of its own, Armenia has found itself in a critical situation. In October, it signed a new agreement with Russia on joint financial policies which calls for the eventual harmonization of its fiscal and monetary policies with those of Russia and the other members of the CIS.

The deficit is extremely high, by some estimates as much as fifty percent of Gross Domestic Product. Until the Russian government introduced its "new" ruble in mid-1993, the deficit appeared to be financed largely by the Russian government's practice of printing money and extending credits and loans. Ruble credits from the Armenian Central Bank in 1993 are estimated at 290 billion rubles. In November, Parliament resolved to distribute the remaining 39 billion rubles of unused credits to the areas of export promotion, construction of small hydroelectric power plants, and transportation of agricultural products. Since the introduction by new Russian government of its "new" Russian rubles, runaway inflation, a precipitous decline in economic activity caused by the blockade and the break-up of the USSR, a virtual absence of fiscal discipline, and ineffective revenue generating and collecting mechanisms have contributed to the size of the deficit.

The government is currently operating with 1961–1992 rubles inherited from the Russian government. A decree issued at the end of October attempts to regulate money supply by limiting the amount of rubles that can be brought into Armenia. The government does not print Russian rubles and appears to have no other means of controlling the money supply. The Central Bank exercises little influence over monetary policy.

2. Exchange Rate Policy

In 1993, the government ended the monopoly of its central bank on foreign currency exchange operations by granting exchange rights to a number of commercial and state banks. In addition, the vibrant currency black market that emerged in 1993 competes with the banks and appears to influence government exchange policies. The introduction of the "new" Russian ruble in Russia in 1993 increased speculative pressure on the "old" ruble in Armenia. At the end of October, the government declared the "old" ruble to be the only valid currency in Armenia. The government, in joining the Russian new ruble zone in October, signed a number of agreements that are intended to eventually harmonize the fiscal and monetary policies of all the members of the CIS.

Armenian residents are currently permitted to take a maximum of $500 with them when they leave the country. Permission to export foreign currency in excess of $500 is granted only upon presentation of a document proving that the money was purchased officially, or legally obtained.

3. Structural Policies

U.S. exports are more affected by the Azerbaijani and de facto Turkish blockade and the conflict in Nagorno-Karabakh than by Armenia's tax and regulatory policies. Foreign businessmen exercise the same rights in owning businesses, and are subject to the same taxes and regulations as Armenian resident businessmen.

Armenian taxes include a VAT, a tax on profit (12–60 percent), an excise tax (5–70 percent), and a personal income tax. In 1993, the VAT was reduced from 28 percent to 16.6–20 percent. A new law on property taxation is being discussed in parliament.

4. Debt Management Policies

In 1992, Russia assumed responsibility for managing Armenia's share of the former USSR's external debt of $561.6 million. In 1993, Armenia incurred ruble and hard currency external debt totalling $220 million. In 1993, the World Bank approved a $1.2 million loan to the energy industry, $12.0 million for institutional building purposes, and continued financing for construction in the earthquake zone. IBRD loans in 1993 comprised $55.1 million dollars.

Debt service payments will start in 1994 and are estimated by the government to be $15 million for that year.

5. Significant Barriers to U.S. Exports

At present, foreign entities have a right to establish in Armenia all forms of businesses envisaged by Armenian laws for local businesses—sole proprietorships, partnerships, limited partnerships, and joint stock companies. The share of foreign assets in an enterprise is unlimited. There is no restriction on repatriation of profits out of Armenia. However, local and foreign businesses who receive their revenues in hard currency are obliged to sell 50 percent of their hard currency profits to the State for rubles at the official exchange rate.

No duties are imposed on the import of raw materials, goods and services to Armenia. There is a strict licensing procedure for the export of raw materials and some products from Armenia. The export customs fee is 0.15 percent of estimated cost.

In 1993, the Armenian Parliament and U.S. Senate ratified a bilateral investment treaty. An Overseas Private Investments Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Armenia, was concluded in 1992.

6. Export Subsidies Policies

In 1993, the Parliament adopted an economic and social development program, which increased government assistance to export capable industries. As was the case during the Soviet period, the government subsidizes state enterprises and provides resource discounts to producers in critical industries. In November, unused credits were appropriated in order to promote export operations of state-owned enterprises.

7. Protection of U.S. Intellectual Property

An agreement on trade relations between Armenia and the U.S.A. signed in 1992 states that the parties shall ensure that domestic legislation provides for protection and implementation of intellectual property rights, including copyright on literary, scientific and artistic works including computer programs and data bases, patents and other rights on inventions and industrial design, know-how, trade secrets, trade marks and service marks, and protection against unfair competition.

In August 1993, the Armenian parliament adopted a Law on Patents and the government established a Patent Administration. Patents are granted for a period of 20 years. Appropriate laws on Trademarks and Copyright are being considered by the Parliament.

By the end of 1993 Armenia plans to join the Paris Convention for the Protection of Industrial Property, the Madrid Agreement concerning international registration of trademarks, and the Patent Cooperation Treaty (PCT).

8. Worker Rights

a. *The Right of Association.*—The 1992 Law on Employment guarantees employees the right to form or join unions of their own choosing without previous authorization. At the same time, many large enterprises, factories, and organizations remain under state control and voluntary, direct negotiations between unions and employers without the participation of the government can not take place.

b. *The Right to Organize and Bargain Collectively.*—The 1992 Law on Employment guarantees the right to organize and bargain collectively. Armenia's high unemployment rate makes it difficult to gauge to what extent this right is exercised in practice.

c. *Prohibition of Forced or Compulsory Labor.*—The 1992 Law on Employment prohibits forced labor.

d. *Minimum Age for Employment of Children.*—The statutory minimum age for employment is 16.

e. *Acceptable Conditions of Work.*—The minimum wage is set by governmental decree and was increased periodically during 1993. Employees paid the minimum wage cannot support either themselves or their families. The vast number of enterprises are either idle or operating at only a fraction of their capacity. Those still on the payroll of idle enterprises continue to receive two-thirds of their base salary. The overwhelming majority of Armenians are thought to live below the officially recognized poverty level.

f. *Rights in Sectors With U.S. Investment.*—There is currently no appreciable U.S. investment in Armenia.

AUSTRIA

Key Economic Indicators

[Billions of Austrian schillings (AS) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)	1,615.6	1,639.8	1,628.3
Real GDP Growth (pct.)	3.0	1.5	−0.7
GDP (at current prices)	1,914.8	2,028.6	2,098.0
By Sector:			
Agriculture	53.0	50.1	54.0
Energy and Water	52.3	55.6	58.1
Manufacturing/Mining	502.3	525.9	526.0
Construction	140.3	153.6	161.4
Rents	N/A	N/A	N/A
Financial Services	321.5	350.4	370.0
Other Services	511.7	546.4	568.2
Public Services	269.2	286.8	292.5
Net Exports of Goods and Services	−789.7	−805.6	−814.1
Real Per Capita GDP (in AS, 1985 prices)	206,460	207,990	205,000
Labor Force (000's)	3,601	3,661	3,688
Unemployment Rate (pct.)	5.8	5.9	7.0
Money and Prices (annual percentage growth):			
Money supply (M2)	8.2	−3.6	−2.0
Secondary Bond Market Rate[2]	8.69	8.39	6.85
Personal Savings Rate[2]	13.2	11.2	10.0
Wholesale inflation	0.8	−0.2	−0.5
Consumer price index	3.3	4.1	3.7
Exchange rate (AS/US$)	11.68	10.99	11.60

Key Economic Indicators—Continued

[Billions of Austrian schillings (AS) unless otherwise noted]

	1991	1992	1993[1]
Trade and Balance of Payments:			
Total exports (FOB)[3]	479.0	487.6	459.4
Exports to U.S	13.5	12.9	15.4
Total Imports (CIF)[3]	591.9	593.9	567.4
Imports from U.S	23.4	23.4	26.0
Aid from U.S	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[4]	148.5	172.1	188.0
Debt Service Payments	12.5	19.8	29.6
Gold and FOREX Res. (year-end)	148.3	178.3	N/A
Trade Balance[3]	−112.9	−106.3	−108.0
Balance with U.S.[3]	−9.9	−10.5	−10.6

N/A—Not available.

[1] Data as of October 1993 and economic forecasts.
[2] Actual, average annual rates, not changes in them.
[3] Merchandise trade only.
[4] Figures reflect the federal government's external debt.

1. General Policy Framework

Austria, a member of the European Free Trade Association (EFTA) and the OECD, has a highly developed economy, with services, including the important tourism sector, contributing 64 percent to total gross domestic product (GDP). Austria is highly integrated into the international economy, with exports of goods and services amounting to almost 40 percent of GDP. The state-owned sector has traditionally played a significant role in the economy, but it has declined steadily in recent years.

Formation of the European Union's single market and liberalization in Central and Eastern Europe pose new challenges for Austria, and the economy is expected to continue to undergo major restructuring. Following eleven consecutive years of growth, Austria was hit by a recession in 1993 as a result of the weak international economy, particularly in Germany, its major trading partner. Austria's real GDP is expected to decline by about one percent in 1993. The recession has delayed progress in the government's goal of reducing the budget deficit to 2.5 percent of GDP by 1994. In 1992, the deficit was 3.3 percent of GDP.

Austria's Grand Coalition Government of Social Democrats and Conservatives has taken measures to make the Austrian economy more liberal and open by introducing a major tax reform, privatizing state-owned firms, and liberalizing cross-border capital movements. To gain access to the European Union's (EU) internal market, Austria applied to join the EU in July 1989, and negotiations began on February 1, 1993. Austria will participate in the European Economic Area (EEA), a free trade zone agreement between EU and EFTA, which Austria ratified on September 22, 1992. The Government prepared extensive new legislation in 1992 and 1993 to prepare Austrian industry and business for the EEA and ultimately the EU.

Austria has significantly increased trade and investment activities in the Central and Eastern Europe (CEE) since 1989, but has also faced stiffer competition from the influx of low-priced Eastern products, and discrimination as a result of the EU's free trade agreements with the CEE countries. Because of geographical proximity and longstanding ties, Austria has been an important gateway for Western companies active in the region.

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 reduced custom tariffs on about 1,800 items in 1990 as an advance concession in the Uruguay Round negotiations.

2. Exchange Rate Policy

The Austrian National Bank (ANB) maintains a "hard schilling policy," adjusting money supply and interest rates to maintain the schilling/German mark exchange rate at AS 7.04 to DM 1. In 1992, the schilling appreciated against most other European currencies. In 1992/93, the ANB followed the German Bundesbank's lead, but also cut interest rates further to stimulate the weakening economy. The value of the U.S. dollar has dropped considerably vis-a-vis the schilling since 1990, but recovered slightly in 1993.

Since November 1991, Austria's foreign exchange regime is fully liberalized. On January 1, 1992, Austria introduced a Capital Market Law on Public Securities which deregulated and liberalized capital markets. U.S. issuers of bonds and securities are free to place offerings in the Austrian capital market.

3. Structural Policies

The prospect of EU integration has sparked economic reform measures during the past two years. By participating in the EEA, Austria will adopt about 60 percent of the EU's rules. In 1993, the Austrian Government published its first federal procurement law, and new legislation on cartels, competition, and business law. The Austrian Government has also taken steps to make its subsidy programs consistent with EU regulations. The "Social Partnership", the system whereby the leaders of Austria's labor, business, and agricultural institutions maintain an ongoing dialogue and give their concurrence to new economic legislation, is an important feature of the economy.

A comprehensive tax reform will become effective January 1, 1994. Aside from modernizing the Austrian tax system, it will reduce personal income taxes and encourage investment and equity capital formation. The corporate tax will rise to a uniform 34 percent; the abolition of the capital tax, however, will significantly reduce the total tax burden for corporations.

A more liberal Business Code became effective July 1, 1993 which makes obtaining licenses in several business categories easier. A new Cartel Law implements regulations for merger control. The Austrian government has also passed legislation requiring environmental impact assessments for many new projects that enters into force in mid-1994.

4. Debt Management Policies

At the end of 1992, Austria's external federal government debt amounted to AS 172.1 billion or 17.4 percent of the Government's overall debt. Foreign debt was divided between bonds (92.4 percent) and credits and loans (7.6 percent). Austria's foreign debt is denominated as follows: 40 percent in Swiss francs, 30 percent in German marks, 27 percent in Japanese yen, and 3 percent in Dutch guilders.

Austria's public external debt amounted to 8.5 percent of GDP in 1992 and is expected to rise to 9.0 percent in 1993. Debt service on this debt amounted to AS 19.8 billion in 1992 and was thus equal to 1.0 percent of GDP and 2.5 percent of total goods and services exports. The 1993 external federal debt service of about AS 29.6 billion is equivalent to 1.4 percent of GDP and 3.6 percent of total exports. Republic of Austria bonds are rated AAA. Austria is an active member of the IMF, World Bank, and Paris Club, and follows debt issues closely, particularly in relation to Eastern Europe and Russia.

5. Significant Barriers to U.S. Exports

Overall tariff levels in Austria are higher than in other OECD countries. If Austria becomes a full member of the EU, Austria will reduce overall custom duties vis-a-vis the United States, in particular for industrial products with a high degree of processing. Still, there exist administrative and technical barriers such as import declarations, quotas, and licensing, testing, and labelling requirements.

In some sectors competition is restricted, in particular in agriculture. High tariffs combined with complicated licensing and quota systems limit agricultural imports. Discretionary licenses are required for imports of some food products, including dairy products, red meats, poultry, grains (except rice), fruits, vegetables, sugar, brown coal, and some weapons. The Austrian Government imposed quotas on cement imports in 1991 and on fertilizers in April 1993 to control the influx of low-priced products from Central and Eastern European countries.

Trade of cheese and beef between the U.S. and Austria is conducted under two bilateral agreements. The first, dating from 1980, gives the U.S. a 600-ton quota for U.S. high quality beef (HQB) in Austria, and the U.S. granted Austria a duty free quota of 7,850 tons for cheese. The second accord, negotiated in 1992 under GATT Article XXVIII as a result of trade concessions withdrawn by Austria on oilseeds products, provides for an additional HQB quota of 400 tons for the U.S. In 1992, Austrian imports of HQB into Austria totalled $12.5 million and Austrian exports of cheese to the U.S. were $13 million. In the fall of 1993, the U.S. requested consultations, claiming that Austria was in violation of the agreements because of changes in the import mechanism, failure to release the full quota in a timely manner, and substantial increases in levies.

Foreign firms offering banking, insurance, and legal services are required to obtain business licenses, as are Austrian firms. The new Banking Act, which goes into effect on January 1, 1994, limits Ministry of Finance discretion and requires that bank licenses be issued if basic requirements are met. Insurance companies wishing

to operate in Austria must establish a branch office and have at least two managers resident in Austria. Other providers of financial services, such as accountants, tax consultants, and property consultants require specific proof of their qualifications, such as university education or 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 must form a joint venture with an Austrian firm. U.S. companies holding investments in several countries participating in the EEA might benefit from more liberal regulations with the entry into force of the EEA.

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 for pharmaceuticals, responses may take as long as three or four years. The Austrian Consumer Protection Law and the Law Against Unfair Competition require that textile products, apparel, household chemicals, soaps, toiletries, and cosmetic preparations must be marked and labelled in German. A regulation implemented in September 1992 requiring that all imported tropical forest products be identified and labelled was lifted in March 1993. 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.

The Austrian government generally welcomes all foreign direct investment, but particularly investment which creates new jobs in high-technology sectors, improves productivity, or restructures and strengthens traditional industries. One hundred percent foreign ownership is permitted. Repatriation of earnings, interest payments, and dividends is not restricted. However, investors must sometimes 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, environmental and administrative approval of one recent large U.S. investment took nearly two years.

Austria ratified and implemented the Multilateral Trade Negotiations Agreement on Government Procurement. Provincial and municipal governments are not, however, required to comply with the rules. Austria does not have restrictive "buy-national" legislation and the principle of the best bidder is usually maintained. Bid times are sufficiently long to allow foreign firms to submit bids. Federal agencies publish public tender notices in English and German.

Austria published its first federal procurement law in mid-1993 in preparation for participation in the EEA, adapting the EU's Single Market legislation on procurement. The Austrian Government did not, however, implement Article 29 of the EU Utilities Directive which mandates price preferences for EC firms. U.S. subsidiaries based in EEA countries will now be able to bid for Austrian procurement contracts which before were open only to Austrian companies. The GATT Government Procurement Code will continue to apply for U.S.-based suppliers. In the military sector, the Austrian Government often requests offset arrangements; in early 1993, it concluded such an agreement with the French Government for the purchase of Mistral missiles.

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 mid-1991, the Austrian Kontrollbank (AKB), Austria's export financing agency, revised its guarantee policy to set rates according to country risk rather than fixed rates. In the past year, the extension of guarantees has become more restrictive. The government assumes guarantees for credit transactions of the AKB if the proceeds of such transaction are used for financing exports and contribute to the AKB's borrowing costs. The Export Fund provides export financing programs for small and medium-sized companies with annual export sales of up to AS 100 million.

7. Protection of U.S. Intellectual Property

Laws are 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 Convention, and the Brussels Satellite Convention. It has also signed the Budapest Treaty on International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure.

Austria has a patent law, a trademark law, a law protecting industrial designs and models, and since 1989, a law protecting the pattern design of semiconductors. Austria's new copyright law of March 1993 provides for the protection of computer software. Austria is a member of the Paris Union International Convention for the Protection of Industrial Property, and patents on inventions are valid up to 18 years after application. Austria is also a member of the Madrid Trademark Agreement. Trademarks are protected for renewable ten-year periods. Protection for industrial designs and models has been extended to 15 years.

A levy on imports of home video cassettes and a compulsory license for cable transmission is required under Austrian copyright law. The resulting revenues are collected and distributed by marketing companies with 51 percent of the total going to a special fund used for social and cultural projects. In 1993, the government was reviewing a proposal to require compulsory licensing of videocassettes to tourist and educational institutions. 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. *The Right of Association.*—Workers in Austria have the constitutional right to associate freely and the de facto right to strike. Guarantees in the Austrian Constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. Labor participates in the "social partnership," and has a significant influence on economic policy.

b. *The Right to Organize and Bargain Collectively.*—Austrian unions enjoy the right to organize and bargain collectively. The Austrian Trade Union Federation (ATUF) is exclusively responsible for collective bargaining. All workers except civil servants are members of the Austrian Chambers of Labor which do research, prepare legislative proposals, and provide legal services. ATUF and labor chamber leaderships are democratically elected. Workers are legally entitled to elect one-third of the board of major companies. Employers in enterprises with more than five employees 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. The law is effectively enforced by the Labor Inspectorate of the Ministry for Social Affairs.

e. *Acceptable Conditions of Work.*—There is no legally-mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over 50 percent of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. *Rights in Sectors With U.S. Investment.*—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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		622
Food & Kindred Products	14	
Chemicals and Allied Products	19	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	53	
Electric & Electronic Equipment	211	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		422
Banking		42
Finance and Insurance		(2)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Services	(1)
Other Industries	(2)
TOTAL ALL INDUSTRIES	1,365

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

AZERBAIJAN

Key Economic Indicators [1]

[Millions of Russian rubles unless otherwise noted]

	1991	1992	1993[2]
Income, Production, and Employment:			
Real GDP Growth (percent)	−0.7	−35.2	N/A
GDP (at current prices)[3]	26,676	183,186	N/A
By Sector:			
Agriculture	8,125	49,460	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	6,331	83,350	N/A
Construction	1,689	13,556	N/A
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	2,380	8,610	N/A
Government, Health and Education	2,106	N/A	N/A
Real Per Capita GDP (000's of rubles, at current prices)	3,684	2,498	N/A
Labor Force (000's)	3,833	3,849	[4] 2.706
Unemployment Rate (pct.)	0.1	0.16	0.7
Money and Prices (annual percentage growth):			
Money Supply	N/A	N/A	N/A
Base Interest Rate[5]	N/A	N/A	N/A
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	1,174.2	1,066.6	N/A
Wholesale Inflation	137.9	463.4	208.7
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (rubles per US$) Official	0.5571	140	820
Balance of Payments and Trade (1991–92 in billions of rubles, 1993 in millions of US$):			
Total Exports[6]	N/A	1,162	255
Exports to U.S	N/A	67	3.4
Total Imports	N/A	446	147
Imports from U.S	N/A	22	7.6
Aid from U.S	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A
Reserves ($ million)	N/A	N/A	N/A
Trade Balance[6]	N/A	716	108
Balance with U.S	N/A	46	−4.2

N/A—Not available.

[1] Figures are from official Azerbaijani sources, which rely on data from state enterprises. They indicate orders of magnitude only.

[2] 1993 Figures are estimates based on available data in October 1993.
[3] GDP at factor cost.
[4] The labor force decrease in 1993 is due largely to war-related displacements and migrations.
[5] Figures are actual, average annual interest rates, not changes in them.
[6] Merchandise trade.

1. General Policy Framework

Azerbaijan, a former Soviet republic of 7.4 million people with rich natural resources, has significant potential as a trading and investment partner of the United States. Exploitation of its enormous oil and gas reserves in the Caspian Sea will require foreign capital and know-how, and Azerbaijan's government is negotiating with several U.S. firms. Azerbaijan has an array of heavy industries, particularly oil refining, petrochemicals, oil field equipment, and air conditioners, that also look to foreign investment for renewal. Finally, Azerbaijan is richly endowed with a diverse agricultural sector producing grapes, cotton, tobacco, silk, tea, and other fruits for export.

Azerbaijan has yet to realize its potential largely because its governments have been preoccupied with issues of survival and instability arising from the war in Nagorno-Karabakh, a break-away formerly autonomous province of Azerbaijan inhabited traditionally by ethnic Armenians. A military coup in June 1993 brought to power Heydar Aliyev, a former member of the Soviet Union's politburo and former Communist ruler of Azerbaijan in the 1970s. He was elected president of Azerbaijan in October 1993. President Aliyev has announced his government's commitment to democratic and market-based reforms though he favors a process of gradual reforms rather than economic shock therapy. To date, there is no central economic policy-making body in the government. Four deputy prime ministers in the cabinet of ministers have responsibility for directing different economic ministries, though all answer ultimately to President Aliyev.

The economy remains dominated by large state enterprises and, in the agricultural sector, by large state and cooperative farms, all producing in theory according to state orders prepared by the government ministries. The National Parliament passed a sweeping but vague privatization law in January 1993, but no privatization program has been implemented. Private business has begun to appear, however, primarily in the form of thousands of small retail shops in the main cities and towns. In addition, many state enterprises are beginning to produce and even market their products independently of central government control.

The economy declined precipitously in the first nine months of 1993, about 16 percent from the first nine months of 1992. The government, continuing its subsidies of key commodities, allowed budget deficits to increase from about five percent of GDP in 1992 to about 14 percent of GDP in the first nine months of 1993. The government's plan for financing this deficit is not clear, but it may rely on the inflationary policy of issuing more currency.

Azerbaijan introduced its own currency, the manat, beginning in August 1992 as a means of meeting the shortfall in cash rubles to pay government salaries. The emission of manat gradually increased so that the government was able to pull Russian rubles from circulation in August 1993. The manat remains pegged to the ruble at the official rate of 10 rubles to one manat, though the finance ministry has plans to let the manat float against the U.S. dollar and German mark. There are also plans to introduce a foreign currency exchange to make the manat convertible.

Azerbaijan joined the Commonwealth of Independent States (CIS) in September 1993 and acceded to the economic union treaty of the CIS. It has not signed the proposed new ruble zone agreement that six other CIS nations have signed. Joining the CIS eliminated tariff and other restrictions on Azerbaijan's critical trade with Russia, Ukraine and other CIS countries, but the full ramifications on economic policy of Azerbaijan's revived ties with CIS countries are not yet clear.

2. Exchange Rate Policy

The Azerbaijani manat is officially pegged to the Russian ruble at the rate of 10 rubles to one manat, though unofficially the manat's value varies between six to eight rubles. The government imposes several controls on foreign exchange. Under a surrender requirement, export industries (including foreign-owned enterprises and joint ventures) must exchange for manats at the national bank up to 90 percent of their hard currency earnings. Another foreign exchange control is the limit on the amount of foreign currency ($1,000) a private citizen of Azerbaijan may take out of the country.

3. Structural Policies

Structural change is coming to Azerbaijan, albeit slowly and more as a result of breakdown of the centrally planned system rather than through a government reform plan.

Pricing policies: The government removed price controls on nearly all consumer goods in 1992, except for several key commodities, including bread, natural gas, and gasoline. As a result, there are shortages of these controlled goods, and many opportunities for corruption as some are sold for higher prices on the black market. In addition, nearly all goods are produced by state enterprise monopolies, and the government continues to set prices for these enterprises by determining fixed cost-plus formulas for selling their goods.

Tax policies: The government implemented a new tax system in 1992 through a series of presidential decrees. This system is composed mainly of four taxes: a 28-percent value added tax; an enterprise profit tax, with a standard 35-percent rate and differential rates allowed on certain enterprises; excise taxes of up to 90 percent of the price of the good (highest being on alcoholic beverages but including a 50 percent tax on certain refined petroleum products); and a personal income tax, progressive in nature but not strictly enforced. Other important sources of government revenue are a royalty on crude oil production, and a tax on vehicle ownership.

Regulatory policies: the government regulates the export of "strategic commodities" produced in Azerbaijan, which include the main hard currency earners including refined oil products, cotton, and wine, through export licenses granted by the Ministry of Foreign Economic Relations. Potential buyers of such commodities must pay this ministry for an export license or another ministry or state enterprise that has obtained a general license for a certain commodity.

4. Debt Management Policies

Azerbaijan has yet to reach agreement with Russia concerning Azerbaijan's share of the former Soviet Union's external debt. The Azerbaijani position is that this amount should net to zero if it were set against Russia's trade debt to Azerbaijan. Azerbaijan's offer of a "zero variant" is not accepted by the Russian government.

The Azerbaijani budget deficit is growing at an alarming rate, and amounts to at least 14 percent of gross domestic production. It is not clear how Azerbaijan plans to finance this deficit. Russia partly financed Azerbaijani budget outlays in 1992 through ruble credits, but this appears to have stopped. Azerbaijani officials have met with representatives from the IMF, World Bank, and the European Bank for Reconstruction and Development, but have not yet established any borrowing programs from these institutions. Azerbaijan has no borrowing relationship with commercial banks. In the short term, Azerbaijan will finance budget shortfalls through printing (and importing from France) manat banknotes.

5. Significant Barriers to U.S. Exports

The most significant barrier to trade with the United States is the lack of hard currency reserves. Azerbaijan pays for nearly all imports with barter goods, primarily refined oil products, cotton, oil field equipment and other manufactured goods, tobacco, tea, and chemicals. Selling goods or services to Azerbaijan almost invariably entails receiving barter goods in exchange and attempting to resell the barter goods for cash.

Other barriers include the lack of laws and institutions to ensure fair play in trade and investment, and the lack of infrastructure supporting trade. Azerbaijan has no bankruptcy or commercial transactions laws. There is no foreign currency exchange, and limited banking services. The customs service and airport officials lack professional training and attitudes. Finally, telecommunications, office space, and experience with western business practices are in very short supply.

Standards and testing requirements: Azerbaijan produces oil field equipment, machine tools and other manufactured goods according to the "GOST" standards used throughout the former Soviet Union, which are not compatible with American or European industry standards.

Investment barriers: according to the Foreign Investment Law of 1992, the government's council of ministers must pre-approve all foreign investments. Mineral exploration and extraction rights are granted through concessionary agreements with the approval of the council of ministers, and usually require parliamentary approval as well. There are restrictions on the number of foreign personnel that an enterprise may hire. At present, both locals and foreigners may lease land but not own it outright.

To normalize its trade and investment relations with Azerbaijan, the United States has proposed a network of four bilateral economic agreements. A bilateral trade agreement, which would provide reciprocal most-favored-nation status, was signed in April 1993 but has yet to be ratified by the Azerbaijani parliament. An Overseas Private Investment Corporation (OPIC) incentive agreement, which would allow OPIC to offer political risk insurance and other programs to U.S. investors in Azerbaijan, was concluded in 1992, but it also has yet to be ratified by Azer-

baijan. The United States has proposed a bilateral investment protection treaty, which would establish an open investment legal regime for investments between the two countries, and a bilateral tax treaty, which would provide U.S. businesses relief from double taxation. The Azerbaijani government has not yet accepted the U.S. offer to negotiate these two treaties.

6. Export Subsidies Policies

The government continues to subsidize production at state enterprises with the intent of maintaining production levels and employment. There is, however, no direct government support for exports to countries outside the former Soviet Union.

7. Protection of U.S. Intellectual Property

Azerbaijan has yet to adopt adequate laws to protect intellectual property. The committee on science and technology of the presidential apparatus drafted patent and trademark laws, but the parliament has not passed them into law. A presidential decree on patents provides some protection. There is no copyright law. Azerbaijan has not adhered to any of the international conventions that protect intellectual property. Trademarks may be registered with the Ministry of Foreign Economic Relations, but there is widespread unauthorized use of corporate trademarks and logos. There is also a small but growing market in Azerbaijan for pirated videos, sound recordings, and computer software, with no government effort to stop it.

A privately-owned television channel's programming consists almost entirely of pirated American films and television mini-series, which have been dubbed into Russian and marketed throughout the former Soviet Union. There is no evidence, however, that Azerbaijan produces such pirated works.

The lack of intellectual property protection is one of the factors inhibiting the development of U.S. trade and investment, though its impact is difficult to assess given the low levels of trade and investment to date. The United States and Azerbaijan signed a trade agreement in April 1993 which contains commitments on protection of intellectual property, but this agreement has not been ratified by the Azerbaijani parliament.

8. Worker Rights

a. *The Right of Association.*—Azerbaijani labor unions continued to be highly dependent upon the government, but are free to form federations, and participate in international bodies. Azerbaijan is a member of the International Labor Organization. There is a legal right to strike, and workers do from time to time strike at certain factories.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining remains at a rudimentary level. Wages are 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, though 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 work place's labor union does not object.

e. *Acceptable Conditions of Work.*—A nationwide minimum wage is set by presidential decree, and was raised numerous times in the past year to offset inflation. Unemployment benefits (5000 rubles or about $4 per month) were granted to 21,567 people in the period September 1992 to August 1993, though state factories and enterprises temporarily laid off many more employees. The legal work week is 41 hours. Health and safety standards exist but are not enforced.

f. *Rights in Sectors With U.S. Investment.*—In the petroleum sector, the only sector with significant U.S. investment, worker rights do not generally differ from those in other sectors of the economy, with one important exception. In the work places in which U.S. petroleum companies have invested, the health and safety standards are dramatically improved.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)
Total Manufacturing	0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
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
Banking		0
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

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

BELARUS

Key Economic Indicators

[Billions of Russian rubles unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP (current prices)	71.88	N/A	N/A
Real GDP Growth (pct.)	−2	−12.2	−11
GNP (current prices)	N/A	780	N/A
GDP by Sector	N/A	N/A	N/A
Labor Force (000's)	5,019.7	4,831.2	5,000
Unemployment (pct.)	0.04	0.30	0.40
Money and Prices:			
Money Supply (bill. Russ. rubles)	N/A	N/A	1,682.8
Base Interest Rate (pct.)[2]	5.0	20.0	210.0
Personal Savings Stock Per Capita (in Russ. rubles)	2,243	857	7,330
Retail Inflation (pct.)	194.1	1,116	1,083
Wholesale inflation	250.4	2,470	1,540
Consumer Price Index (actual)	687.9	957.0	1,052
Exchange Rate (avg.) (Belarus coupons per US$)	N/A	[3] 364	[4] 852
Trade and Balance of Payments (in millions of U.S. dollars):			
Exports to U.S	N/A	43	32.2
Imports from U.S	N/A	91	56.2
Trade balance with U.S	N/A	−52	−24
Aid from U.S	N/A	38.6	[5] 60

N/A—Not available.

[1] Jan–Sept., 1993

[2] National bank base rate for loans to commercial banks as of 12/93.

[3] Average exchange rate July–Dec. 1992.

[4] Average exchange rate Jan.–June 1993.

[5] Some 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. Most data was furnished by the Belarusian State Committee for Foreign Economic Relations.

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 (CIS) in December, 1991. The de facto head of state is Supreme Soviet Chairman Stanislav Shushkevich. The government is headed by Prime Minister Kebich who, together with the Council of Ministers, directs economic policy.

Belarus has declared its intention to create a "socially-oriented market economy," but the pace of reform in Belarus has been slow. The delay in implementing a comprehensive program of economic reforms has been blamed on the government fear over possible social unrest caused by decreased living standards and unemployment. Nevertheless the government continues to lower the levels of food and energy subsidies. In November, in the face of increasing criticism over its handling of the economy, the government introduced a 75-point plan aimed at lifting the economy out of crisis. Like previous plans, the latest program calls for increased reliance on market mechanisms, but it remains to be seen if and how the program will be carried out in practice.

Belarus has a diversified economy which had generated one on the highest standards of living in the former USSR. Belarus can meet all of 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 is balanced towards livestock which contributes about 60 percent of its NMP. 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 about 70 percent of its raw materials and to absorb 40 percent of Belarus' output. Despite initial efforts already undertaken, the military complex requires vast restructuring which will require investment as well as 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 estimates value of net energy imports for the first nine months of 1993 to be over $2 billion. Belarus used almost two-thirds of a $98 million IMF STF Loan in 1993 to pay for Russian oil.

Belarus also faces a number of environmental problems related to the Chernobyl accident and its heavy industrial base. Agricultural activity is still restricted in many areas damaged by Chernobyl.

Fiscal and monetary policies: the Government of Belarus allowed itself a deficit of no more than 6 percent of government expenditures, but most analysts agree that the deficit for 1993 is now considerably above that level. The government has pledged to lower the deficit in 1994. The minimum wage rose several times over the year, starting out at 3000 rubles per month in January, and ending with a final jump in October when the Council of Ministers raised the minimum wage to 20,000 rubles.

In an attempt to gain more control over the money supply, Belarus limited the circulation of the Russian ruble in 1993. Nevertheless, the volume of money in the Belarusian economy increased dramatically last year. Credits to otherwise insolvent enterprises totalled 152.5 billion rubles for the first six months of 1993.

The National Bank of Belarus (NBB) is a weak financial institution, hampered by lack of technical and financial expertise as well as by political interference. Establishing monetary control is impeded by the practice of monetizing the fiscal deficit and outright cancelling outstanding debts of state enterprises. 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.

Most of the specialized banks that make up the commercial banking sector are largely owned by state enterprises. Over twenty five private 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 several hundred million dollars in the next one to two years for such things as essential imports, institution building and private sector development in agriculture. The EBRD has approved a $38 million telecommunication project. Belarus was granted GATT observer status in 1992.

2. Exchange Rate Policy

Belarus is in the so-called ruble zone. Experiencing a shortage of Russian rubles in 1992, the government issued coupons or "Belarusian rubels" in an effort to supplement the circulation of currency and to protect the Belarusian market. In 1993,

the government mandated that all non-hard currency retail purchases made in state stores must be paid for in "Belarusian rubels." (Note: following Russia's lead, Belarus is currently considering forbidding retail trade in dollars.) The government is using the "Belarusian rubel" to pay all wages and student grants.

On the basis of a treaty signed by Belarus and Russia on September 8 (and subsequently ratified by the Belarusian Supreme Soviet in November), Belarus and Russia agreed to merge their respective monetary systems. Belarusian officials stated that the Russian ruble will be reintroduced as legal tender in 1994 and the "Belarusian rubel" will be gradually withdrawn from circulation. In order for this to occur, the agreement mandates that certain Belarusian economic laws must be brought into line with the corresponding Russian legislation. (Note: The monetary agreement has not yet been ratified by the Russian Legislature.)

3. Structural Policies

The government has stated that it is anxious to attract foreign investment and has introduced a series of reforms to improve the investment climate. The Supreme Soviet has passed legislation regulating bankruptcy, leasing, and enterprises, but implementation remains problematic.

The Supreme Soviet adopted two privatization laws in 1993. In addition to 257 enterprises already privatized in 1991–92, 165 others are to be turned into private sector enterprises by the end of 1993. Small-scale privatization programs are underway in some Belarusian cities, notably in Molodechno and Brest. Privatization vouchers are to be distributed to the population starting in April 1994.

4. Debt Management Policies

Belarus was a signatory to the G–7 agreement on the former Soviet Union (FSU); its share was set at 4.13 percent. In a 1992 agreement signed with Russia, Russia assumed all of Belarus FSU debt obligations, while Belarus gave up all rights to FSU assets. Recently, Foreign Minister Kravchanka has hinted that he seeks to reopen negotiations on this issue.

5. Significant Barriers to U.S. Exports

Joint ventures with more than 30-percent 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 if the product is manufactured by a joint-venture in Belarus. If the company sells foods or services of third parties—so-called "middleman activity"—the tax holiday on profits does not apply. Hard currency earnings from the export 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 20 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; and, f) fuel tax.

To date, there is no law on currency regulations in Belarus, although draft decrees on this subject are regularly adopted by the Supreme Soviet. At the end of 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 (previously 20 percent) remain at the disposal of the enterprise. All other enterprises must sell 20 percent of their hard currency earnings to the Government of Belarus and pay a 10-percent hard currency revenue tax. (Note: the Government of Belarus is currently considering changes which would liberalize these provisions.)

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 provides reciprocal most-favored-nation status, was concluded and then ratified by the Belarus Parliament. The agreement came into force in the spring of 1993.

A U.S.-Belarus Bilateral Investment Treaty, which would establish a bilateral legal framework to stimulate investment, is still 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; however, these subsidies are aimed at maintaining production and employment rather than being specifically targeted 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 includes some 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 considered an independent organ as it still follows government directives.

a. *The Right of Association.*—A Law on Trade Unions, passed by the Belarusian Supreme Soviet in 1992, 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. *The 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 trade union members. The Supreme Soviet passed a new law on labor disputes in 1992.

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 production in the production of manufactured goods exists.

d. *Minimum Age for 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, along with the Council of Ministers, has the responsibility to set a minimum wage which is increased 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 lack of demand for factory production. The law establishes minimum conditions for work place safety and employee health. However, enforcement of these standards is lax.

f. *Rights in Sectors With U.S. Investment.*—There is no significant U.S. investment in Belarus.

BELGIUM

Key Economic Indicators

[Billions of Belgian francs (BF) unless otherwise noted (all figures end-of-year unless noted)]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GNP (Billion 1985 francs)	5,785	5,884	5,978
Real GDP growth rate (pct.)	1.9	0.8	−1.5
GNP at current prices	6,855	7,032	7,144
Real GDP by Sector:			
Agriculture	131	N/A	N/A
Industry	1,479	N/A	N/A
Construction	409	N/A	N/A
Services	5,626	N/A	N/A
Real Per Capita Income (BF)	673,074	701,656	712,831
Size of Labor Force (1,000s)	4,210	4,236	4,261
Unemployment Rate (pct.)	7.5	8.2	9.5
Money and Prices:			
Money Supply (M1)	1,334	1,316	N/A
Tender Rate (pct.)	9.0	9.2	9.6

Key Economic Indicators—Continued

[Billions of Belgian francs (BF) unless otherwise noted (all figures end-of-year unless noted)]

	1991	1992	1993[1]
3-month Treas. Bill Rate (pct.)	9.4	9.4	8.4
L-T Govt. Bond Yield (pct.)	9.3	8.8	8.4
Govt. Deficit as pct. of GNP	−6.7	−6.9	−6.6
Savings Rate (pct. of GNP)	21.4	21.6	20.9
Investment Rate (pct.of GNP)	19.7	19.8	19.0
Consumer Price Index (pct.)	3.2	2.4	2.8
Wholesale Price Index (pct.)	−1.1	0.2	0.7
Exchange Rate BF/$ (avg.)	34.18	32.12	33.88
Balance of Payments and Trade:			
Total Exports FOB	4,023	3,967	4,030
Exports to U.S	151	153	N/A
Total Imports CIF	4,116	4,023	4,071
Imports from U.S	197	176	N/A
Aid from U.S	0	0	0
External Public Debt	1,107	1,010	1,022
Annual External Debt Service	244.7	193.5	189.3
Total Public Debt	7,750.9	8,288.7	8,760.2
Overall Debt Service Payments	617.9	678.6	692.6
Gold and Forex Reserves	784.5	710.5	717.5
Current Account Surplus	156	210	165
Trade Balance with U.S	−46	−23	N/A

N/A—Not available.
[1] Estimated.

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 GDP, it depends heavily on world trade. Belgium ranked as the ninth-largest trading nation in absolute terms in 1992. About 75 percent of its trade takes place with other European Union (EU) members, and another 6 percent with European Free Trade Area (EFTA) countries. Belgium's service sector (including the public sector) accounts for 65 percent of GDP, 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 work force. Over the past 30 years, 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, plastics, organic chemical products and refined petroleum. The country's main exports to the United States include diamonds, chemicals, refined petroleum products, bicycles, 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 United States include petroleum products, transportation equipment, diamonds, computers and related equipment and services.

Belgium and the United States have strong reciprocal trade relations. Belgium receives about two percent of all U.S. exports, which gives it a rank of 12th place 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 United States generally maintains with Belgium one of our most favorable bilateral balances of trade in the world. In 1992, the United States exported $9.78 billion worth of goods to Belgium and imported goods worth $4.48 billion from Belgium, for a merchandise trade surplus of $5.30 billion, according to the U.S. Department of Commerce.

Belgium's high dependency on exports to European trading partners with economies in recession, a reduction in domestic investment and consumption, and high

domestic interest rates tied to German rates will lead to a contraction in GDP of about 1.5 percent in 1993, according to the National Bank of Belgium.

For 1994, prospects are slightly better. Growth could reach plus 1.0 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 EU average. By the EU's definition, Belgian unemployment reached 9.3 percent in August 1993.

A focal point of economic policy for the Dehaene government, which took office in March 1992, is to reach the Maastricht Treaty's annual public sector budget deficit target of three percent of GDP by 1996. This target is proving difficult to reach. Belgium ended 1992 with its annual budget deficit equal to 6.9 percent of GDP. Government convergence plans called for the annual deficit to drop sharply in 1993, but with the ongoing recession reducing tax revenues and raising social expenditures, the 1993 annual deficit will probably end up little changed from the 1992 result. This will make adjustment in 1994 and later years even more painful if the 1996 target is to be reached.

Not only is Belgium's annual public sector deficit a problem, so is its total level of net outstanding public sector debt, which stood at 124 percent of GDP at the end of 1992, the highest level in the OECD. Debt service payments account for 41 percent of annual central government expenditures excluding most social programs. If not managed properly, the debt service burden could lead to a "snowball effect" of new deficits growing out of the requirement to finance old ones, and debt service payments squeezing out other government expenditures over time. To attack this problem, the government must progressively reduce the annual budget deficit primarily by reducing expenditures rather than by raising taxes. The Belgian level of overall taxation is already near the top of OECD countries, so there is little scope for finding new revenues if the country, which depends heavily on international trade, is to remain competitive. Spending for social programs accounts for about 70 percent of legally-required expenditures excluding debt service, and agreeing on the needed level of cuts is proving difficult for the government.

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 American firms seeking to establish an office or facility abroad. More than 60 percent of the purchasing power in Western Europe lies within 500 miles of Brussels.

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 "through-put" economy; i.e. the vast majority of processed goods are imported as raw materials, then transformed and mostly re-exported. 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 generate a minor 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. To raise money to reduce the public sector deficit, the government has begun to privatize some state enterprises, so the contribution of state companies to the economy will shrink further over time.

2. Exchange Rate Policy

Belgium participates in the EU's Exchange Rate Mechanism (ERM) in the European Monetary System (EMS), and the Belgian Franc (BF) makes up part of the basket of European currencies from which the value of the ECU (European Currency Unit) is calculated. The Belgian Franc is equivalent at par with the Luxembourg Franc; the two countries formed the Belgian-Luxembourg Economic Union, or BLEU, in 1921.

In March 1990, the Belgian government abolished its system of dual exchange rates, whereby an official rate was used for capital transactions and a free or commercial rate for commercial transactions. The move in the context of further EU 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 targeted a maximum divergence of 0.25 percent (versus 2.25 percent allowed) in the ERM.

Belgium succeeded in maintaining this 0.25 percent divergence for three years until market turbulence resulted in the widening of the permitted ERM currency fluctuations to 15 percent beginning August 2, 1993. The Belgian Franc since has fallen more than 5 percent below its DM parity despite the Belgian government's continued adherence to its "strong franc" policy (now defined by the government as a divergence target of 2.25 percent against its DM parity).

3. Structural Policies

In practice, Belgium does not discriminate between foreign and domestic investors. There are basically no legal measures in force to protect local industry against foreign competitors, except in the agricultural sector where the EU's external tariffs and the quota structure of the Common Agricultural Policy (CAP) apply. Nevertheless, unwritten rules have favored national suppliers for public procurement contracts and there have been occasional instances where individual private sector projects have met resistance from established economic interests. The U.S. discount chain Toys R Us, which has received two government permits to date to operate, has other permit requests denied or still pending. In time, however, these cases are typically resolved to the mutual satisfaction of the parties concerned.

Subsidies: On July 20, 1993, Belgium completed its process of constitutional change and became a federal state. In this new system, the three regional governments of Flanders, Brussels, and Wallonia will assume responsibility for most state aid programs under the guidance of the federal government and EU regulation. State aids are substantially based on two federal laws: (1) the Economic Expansion Act of August 4, 1978 (for small companies), and (2) the Economic Expansion Act of December 30, 1970 (for large companies). Both laws provide financial and fiscal incentives for investments in land, buildings, and tangible and intangible assets. Belgian state aid programs at all levels of government seem likely to shrink in the next several years as pressures to limit them from the EU Commission and from declining national and regional budgets intensify. The EU Commission believes that state aids distort the single market, impair structural change, and threaten EU convergence and social and economic cohesion. Belgium has historically been near the top of the EU in providing state aids, well above the Union average. In recent years about five percent of total Belgian public sector spending has gone to state aids, about 64 percent of which went to particular industries, e.g. the railroads and coal mines. In the future, the remaining state aid programs will emphasize general macroeconomic objectives such as promoting innovation, research and development, energy saving, exports, and most of all, employment.

Investment: U.S. direct investment in Belgium at the end of 1992 stood at $10.8 billion, the 13th-highest level in the world. No restrictions in Belgium apply specifically to foreign investors. Specific restrictions that apply to all investors in Belgium, foreign and domestic, include the need to obtain special permission to open department stores, provide transportation, produce and sell certain food items, cut and polish diamonds, and sell firearms and ammunition. During 1993, the American Chamber of Commerce in Belgium complained publicly on behalf of some of its members about a deterioration in certain aspects of the previously excellent foreign investment climate in Belgium. The American Chamber specifically criticized the absence of a unified government policy on foreign investment within Belgium resulting in firms finding themselves welcomed and turned away at the same time by different government agencies. In addition, the Chamber complained of an inconsistent approach to environmentally sensitive investment projects, contradictory tax treatment of expatriate cost remuneration, uncertainties concerning the legal status of certain kinds of investments, and hardships for the families of expatriates occasioned by Belgian tax, visa, and immigration policies.

Tax structure: Belgium's tax structure was substantially revised in 1989. 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 29 percent to 37 percent. 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 bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past five years, the Belgian tax system is still characterized by relatively high marginal rates and a fairly narrow base resulting from numerous fiscal loopholes. While indirect taxes are lower than elsewhere in the EU, 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. A protocol to the 1970 treaty was concluded in December 1987 and 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 probably push the country into a net creditor position. Only about 13 percent of the Belgian government's overall debt is owed to foreign creditors. Moody's Aa1 rating of the country's bond issues in foreign currency fully reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse of Luxembourg, as well as the slowdown in external debt growth. The Belgian government does not experience any major problems in obtaining new loans on the local credit market. Because of the reform of monetary policy in January 1991, as well as greater independence granted in 1993 to the National Bank of Belgium (NbB), direct financing in Belgian francs by the Treasury through the central bank has become 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 significant donor nation, and it closely follows development and debt issues, particularly with respect to Zaire (where development aid flows are frozen) and some other African nations.

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

With the beginning of the EU's single market, Belgium has implemented most, but not all, of the trade and investment rules necessary to harmonize with the rules of the 11 other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly.

Some 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 steered clear of the Belgian defense market. The number of military contracts is dwindling, however, as Belgian military spending declines.

—Telecommunications: Foreign suppliers of telecommunications equipment have encountered difficulties in gaining access to the Belgian market, especially when they do not have production facilities in the country. This attitude appears to be changing, however. Belgacom, the Belgian state-controlled PTT company which received operating autonomy in 1991, has apparently concluded that to be competitive in the international telecommunications market, and to provide quality service to customers, it must find technologically-advanced foreign partners. The government has identified Belgacom as a potential firm for privatization. Pactel has just been awarded a contract to upgrade Belgium's cellular telephone system, and U.S. companies are considered competitive to win contracts in other areas.

—Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which required high percentages of "domestic" programs) because its provisions were not, in the country's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and Walloon (French-speaking) community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements, and in Flanders won a decision to force a foreign firm access to the cable television system. In 1993 the francophone region led an effort to exclude the U.S. TNT cartoon channel from cable systems in all three regions. A Brussels court subsequently required the broadcasting of TNT in the Brussels region, but a legal appeal may be possible.

—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 to take advantage of the 1992 single market process, the number of U.S. lawyers with a professional card was approaching the limit until it was raised by the Belgian government in 1990. A government review of the qualitative restrictions on the activities of foreign legal consultants, many of which are not applied, is being considered.

—Car Registration Tax: In June 1992, the Belgian government passed a car registration tax which had a potentially significant impact on the importation of U.S. cars, four-wheel drive vehicles, 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, the new tax could reduce the number of American vehicles imported into Belgium but to date does not seem to have done so. The overwhelming number of U.S. vehicles sold in Belgium are produced by Ford and General Motors in Belgian facilities.

—Pharmaceutical Pricing: Drugs and Pharmaceuticals in Belgium are subject to government price controls. Major American pharmaceutical firms with investment in Belgium are increasingly concerned with this restrictive pricing policy.

6. Export Subsidies Policies

There are few direct export subsidies offered by the Government of Belgium to industrial and commercial entities in the country, but the government does conduct an active program of trade promotion. This trade promotion activity (subsidies for participation in foreign fairs and the compilation of market research reports), together with a social expenditure break (a reduction of social security contributions by employers, and generous rules for cyclical layoffs) are offered to both domestic and foreign companies by the government, and they may come close to the definition of a subsidy in the case of a company engaged in exporting.

Belgian government subsidies to its Airbus partners runs in the hundreds of millions of dollars for the period 1992–98. Central government Airbus subsidies may be self-extinguishing, but regional government subsidies seem likely to rise in the future despite commitments to control them.

7. Protection of U.S. Intellectual Property

The Government of Belgium is keenly interested in intellectual property protection and actively followed the subject in the Uruguay Round negotiations. Some Belgian firms, especially textile capital equipment manufacturers, have seen their research and development efforts pirated and are therefore eager to improve the standards of protection. The Motion Picture Export Association of America (MPEAA) has complained of a significant level of video piracy in Belgium.

Belgium is party to the major intellectual property agreements, including the Paris, Bern and Universal Copyright Conventions, and the Patent Cooperation Treaty.

The EU imposed a January 1, 1993, deadline for implementation of the EU software copyright directive into Belgian law. A still pending GOB copyright bill to fulfill the EU requirement 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 copying of music and video recordings. The current draft legislation apparently does not contain any reciprocity clauses, and may benefit U.S. authors, performing artists, and producers, since 70 percent of the levy proceeds are earmarked for these groups. In addition, unauthorized copying would be penalized through fines and imprisonment. The bill still awaits full Parliamentary approval.

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. *The Right of Association.*—With an estimated 66 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. Belgian workers have the right to associate freely and to strike. In certain narrowly defined circumstances, however, such as in the provision of essent'ai public services, public employees' right to strike is not explicitly recognized. Unions striking or protesting government policies or actions are free from harassment and persecution. Significant strikes occurred in 1993 in the education, shipbuilding, and social welfare sectors.

Labor unions are strong and independent of the government but have important informal links with and influence in many of the major political parties. Belgian unions 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. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized and exercised freely. Management and unions negotiate every other year a nationwide collective bargaining agreement covering the 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 hears disputes arising from labor contracts, collective bargaining agreements, and other matters.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and does not occur.

d. *Minimum Age for Employment of Children.*—The minimum age for employment of children is 15, but there is compulsory schooling until the age of 18. The labor courts effectively monitor compliance with national laws and standards. New legislation further tightening conditions of child labor in entertainment and related occupations was adopted in 1992.

e. *Acceptable Conditions of Work.*—Belgian working hours, regulated by law as well as through collective bargaining agreements, are among the shortest in Europe. A maximum 40-hour workweek is mandated by law, although many collective bargaining agreements call for workweeks of between 36 and 39 hours.

The minimum wage rates in the private sector are set in biannual nationwide negotiations between the leading trade unions and the Belgian Business Federation. After agreement is reached, a formal collective bargaining agreement is signed by the National Labor Council and is made mandatory upon the entire private sector by Royal Decree. In the public sector, the minimum wage is determined in negotiations between the government and the public service unions. The legal minimum wage for full-time workers age 21 and above (currently about dollars 1,167 (BF 40,843) per month in the private sector and dollars 1,286 (BF 45,000) per month for public sector workers) provides a comfortable standard of living. The Belgian minimum wage level is often cited as one reason for the country's high rate of unemployment.

Comprehensive health and safety legislation is supplemented by collective bargaining agreements on safety issues. The Labor Ministry implements this legislation through a team of inspectors and determines whether a worker qualifies for disability and medical benefits. Health and safety committees are mandated by law in companies with more than 50 employees and by works councils in companies with more than 100 employees. Labor courts effectively monitor compliance with national laws and standards.

f. *Rights in Sectors With U.S. Investment.*—U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas. Worker rights are practiced and observed uniformly throughout the country.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		291
Total Manufacturing		5,940
Food & Kindred Products	440	
Chemicals and Allied Products	3,356	
Metals, Primary & Fabricated	234	
Machinery, except Electrical	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Electric & Electronic Equipment	196	
Transportation Equipment	(1)	
Other Manufacturing	1,129	
Wholesale Trade		1,811
Banking		(1)
Finance and Insurance		2,072
Services		502
Other Industries		(1)
TOTAL ALL INDUSTRIES		10,771

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

BOSNIA-HERZEGOVINA

Bosnia-Herzegovina remains a war zone and consequently has very little economic activity beyond smuggling and distribution of humanitarian supplies. What little industrial activity exists has been directed entirely to supporting the war effort. Where there were once world class resorts, there are now burnt-out villages and destroyed factories. The Bosnian Serbs have conducted a policy of "ethnic cleansing" to displace an entire sector of the population, namely, the Muslims.

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, with diversion by the Serbian authorities the general rule if gas flows at all.

The supply lines into Bosnia-Herzegovina are often interrupted by bad weather or by fighting. Sarajevo, the capital of Bosnia-Herzegovina, remains under siege 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 heavily damaged and a large part of the most productive segment of society has been dislocated or eliminated. There are no financial reserves to begin reconstruction. It will be years before Bosnia-Herzegovina can recover from the current crisis, and massive donor support will be needed to begin the process.

BULGARIA

Key Economic Indicators

[Billions of 1992 Bulgarian leva unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP[2] [3]	222.5	210.0	205.0
GDP (at current prices)[2] [3]	131.1	210.0	349.0
Real GDP Growth Rate (pct.)[2]	−11.7	−5.6	−2.0
Real GDP by Sector:[2] [3]			
Industry	99.3	86.1	80.1
Agriculture	23.4	20.2	17.5
Trade and Services	98.1	88.6	93.0
Per Capita Income (US$)[2] [3] [4]	1,420	1,330	1,270
Labor Force (000's)[2] [3]	3,983	3,690	3,397

Key Economic Indicators—Continued

[Billions of 1992 Bulgarian leva unless otherwise noted]

	1991	1992	1993[1]
Unemployment Rate (pct.)[2] [3]	9.0	15.0	15.5
General Government Balance	−8.4	−6.9	−8.4
Money and Prices:			
Broad Money (M1, bil. leva) IMF	24.8	41.1	45.2
Commerc. Int. Rate (pct.)[5] [6]	56.2	61.1	55.6
Gross Domestic Savings Rate[2] [3]	2.08	2.1	N/A
Gross Domestic Investment Rate	2.27	2.25	N/A
Consumer Price Index[2] [3] (Dec. 1991 Equals 100)	100	182	307
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (year-end):			
Official[7]	21.5	23.0	32.0
Parallel	22.5	24.0	33.2
Balance of Trade and Payments (million U.S. dollars):[2] [3] [5]			
Total Exports (FOB)	3,740	3,500	3,200
Exports to U.S	99	85	95
Total Imports (FOB)	3,780	3,450	3,800
Imports from U.S	85	79	150
Aid from U.S (U.S. FY basis)	88	40	46
Aid From Other Countries (Including International Financial Institutions)	724	600	154
External Public Debt	11,700	12,900	13,700
Annual Debt Service Paid ($ mil.)	4	194	[8]90
Annual Debt Service Scheduled	2,444	2,918	2,211
Gold and FOREX Reserves	683	1,268	1,000

N/A—Not available.

[1] 1993 Figures are estimates for end-of-year.

[2] International Financial Institutions Data.

[3] U.S. Embassy Estimate.

[4] Per capita incomes are calculated at the following exchange rates: 1991—18.0 leva:dollar; 1992—23.0 leva:dollar; 1993—27.1 leva:dollar.

[5] Government of Bulgaria data.

[6] BNB basic (lombard) refinancing rate (period average).

[7] Rate depreciated from 23:1 to 29.5:1 from January to October 1993.

[8] 1993 Figure is for first six months.

1. *General Policy Framework*

Following the fall of the Union of Democratic Forces (UDF) government led by Filip Dimitrov in October 1992, centrist economist Lyubin Berov formed a non-party cabinet which, with some individual changes, governed throughout 1993. Berov lacked a stable parliamentary majority, and was forced to depend on the Bulgarian Socialist Party, heir to the Bulgarian Communist Party structure, for much of his support.

The Berov government generally continued the policies of its predecessor: restrictive fiscal and monetary policies and incremental structural reform. Combined with the collapse of Bulgaria's COMECON trade (80 percent of the pre-1989 total), the global recession, and United Nations sanctions, first against Iraq and later against Serbia, this has resulted in a prolonged economic downturn, which may have bottomed out in 1993. Bulgaria's healthy 1992 trade surplus shrank dramatically in 1993.

The Central Bank (BNB) sought to bring inflation down from a 6.9-percent to a 3.0-percent monthly rate by year-end 1993, using a normal range of policy instruments. Inflation continued to ease gradually, falling from an official rate of 79.5 percent for 1992 to a projected 65 to 70 percent for 1993. After gradually reducing interest rates during the year, the BNB sharply increased them in November to help stabilize the depreciation of the lev, which had come under severe speculative pressure. Despite stagnation in the standard of living over 1993, exports of U.S. consumer goods have risen given the relative weakness of the dollar versus European convertible currencies.

During 1993, the government struggled with a growing budget deficit, reportedly approaching 10 percent of GDP late in the year. The ballooning deficit resulted from a sharp decline in revenues, especially receipts from the shrinking profits of state-owned industrial enterprises, and higher state-sector salaries. It financed the deficit through a combination of Central Bank borrowing and Treasury Bill sales. In June, Bulgaria again halted service of current interest due on its $10 billion defaulted foreign-commercial (London Club) debt. In November Bulgaria agreed on a Brady-Plan-type rescheduling of its debt. On November 24, the Government of Bulgaria and the Bank Advisory Committee heading the negotiations agreed in principle to a debt deal. A term sheet is expected to be finalized on January 11, 1994.

Bulgaria rescheduled its 1992 maturities with the Paris Club (official creditors), but failure to conclude one bilateral under the 1991 rescheduling and two bilaterals under the 1992 rescheduling agreement, as well as the need for a follow-on IMF Standby Agreement blocked talks on 1993 maturities. Parliament gradually passed elements of a comprehensive tax reform proposal, including a unitary 18 percent VAT (to be implemented April 1, 1994), to replace an unwieldy system of turnover taxes.

The transition to a market-oriented economy continued, albeit slowly and against political and social resistance. Structural reforms necessary to underpin macroeconomic stabilization were not pursued vigorously. Restitution of urban shops and houses put capital into the hands of many ordinary Bulgarians, helping fuel rapidly growing service and consumer goods sectors. However, legal privatization of state-owned industry moved hardly at all, as did the breakup of state-organized collective farms.

Parliament ratified Bulgaria's association agreement with the European Community (EC), although implementation was delayed by an internal EC dispute over safeguard provisions. An agreement with the European Free Trade Association entered into force. A Bilateral Investment Treaty with the United States was ratified by the U.S. Senate in November, 1993.

2. Exchange Rate Policies

From January to November 1993, the lev weakened in nominal terms (from 26.1 to 31.3 per dollar). In real terms (considering inflation), it continued the appreciation which started in April 1991 after the introduction of shock stabilization. The BNB intervened in the currency market to stabilize the nominal lev depreciation. In doing so the BNB significantly increased the country's convertible currency reserves to more than $1 billion by late 1993. During 1994, the lev is forecast to depreciate nominally at about the rate of inflation, i.e. 30 to 40 percent. 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 can 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 legally buy only 10,000 leva worth of hard currency per year without specific cause. 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; free and prompt transfers of capital gains are guaranteed in the Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons, for direct and indirect investments, and for free transfers unconnected with import of goods or services.

3. Structural Policies

Bulgaria's new market-oriented legal structure does not inhibit U.S. exports, which are more affected by the government's tight monetary policy and Bulgaria's isolation from trade financing. Further 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.

Privatization made little progress in 1993. Although Prime Minister Berov entered office pledging his would be the "privatization government," only two significant state enterprises have been privatized. In an effort to get the process moving, Berov announced in May a mass privatization plan. A compromise proposal eventually was submitted to Parliament, where it remained under consideration in Octo-

ber. Until privatization is well rooted, one can expect a certain unpredictability in commercial dealings.

Another high government priority, a package of tax reform legislation, moved slowly through parliament. Tax administration and tax proceedings laws were passed in July and the value added tax (VAT) in October. Income tax and profits tax bills remained in committee and approval is expected in early 1994. The VAT will be implemented April 1, 1994, while the revised income and profits taxes are to take effect January 1, 1995. 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 1993, 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 $13 billion debt, more than 80 percent is owed to foreign commercial creditors; almost half of the commercial debt is trade financing. The cut-off of trade financing by western banks because of the moratorium remains the main barrier to imports from the U.S. and elsewhere.

Debt service theoretically due in 1993 approximates 59 percent of exports. The debt to GDP ratio is 181 percent. Bulgaria rescheduled its official ("Paris Club") debt for 1991 and 1992. Negotiations on its 1993 maturities are delayed, pending completion of three bilateral agreements that remain unsigned from 1991 and agreement with the IMF on a third Standby Agreement. In late November 1993, Bulgaria reached an agreement-in-principle with its commercial creditors ("London Club") on a Brady-Plan-type rescheduling of its $10 billion debt. The parties hope to reach a Brady-Plan-type agreement in early 1994.

Bulgaria is negotiating with the IMF its third one-year Standby Arrangement. Bulgaria also is the recipient of a $250 million structural adjustment loan from the World Bank, although release of the $100 million second tranche now hangs on successful negotiation of the IMF Standby Arrangement.

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. (In March 1993, COCOM took the first steps to ease export controls on selected technologies and products. Bulgaria was granted "favorable consideration status," the same status enjoyed by Poland and the former Czechoslovakia. Favorable consideration status means a presumption of approval for COCOM applications and a shorter approval period.) The Bulgarian government has declared that it grants licenses within three days of application, without fees, and in a non-discriminatory manner. The U.S. embassy has no complaints on record from U.S. exporters that the import-license regime has affected U.S. exports.

The Bulgarian government states that its system of standardization is in line with internationally accepted principles and practices. Imported goods must conform to minimal Bulgarian standards, but in testing and procedures imported goods are accorded treatment no less favorable than that for domestic products. Bulgaria accepts test results, certificates or marks of conformity issued by the relevant authorities of countries signatories to international and bilateral agreements to which Bulgaria is a party. All imports of goods of plant or animal origin are subject to veterinary and phytosanitary control, and relevant certificates should accompany such goods.

In 1993, Bulgaria repealed tax incentives (a five-year tax holiday, a profit-tax rate 25 percent less than that of domestic enterprises) nominally available to foreign high- technology investors. Foreign investors are now subject to the same 40 percent Profits Tax as Bulgarian enterprises.

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 capital gains are less clearly covered in the law, Bulgaria committed itself to their free repatriation in the U.S.-Bulgarian Bilateral Investment Treaty signed in September 1992.

Foreign investors are required to obtain a license to own or have controlling interest in banking or insurance; in firms manufacturing arms, ammunition, or military equipment; in so-far unspecified geographic areas; and, in research, development and extraction of natural resources.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel. Bulgaria committed itself in the U.S.-Bulgarian 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 many tendering procedures (e.g. the extension of the E-80 superhighway from Plovdiv to the Turkish border). U.S. investors are also finding that in general neither the remaining state enterprises nor private firms are used to competitive bidding to supply goods and services within Bulgaria to these investors.

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. 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

During 1993, Bulgaria enacted new Patent and Copyright Laws which on paper generally brought the country's IPR system up to international standards. Bulgaria's third major piece of IPR legislation, the Trademark and Industrial Design Law, is in need of updating but considered adequate overall. Production and trade secrets are nominally protected under Art. 14 of the "Protection of Competition Act."

The most serious problem with current IPR legislation is the lack of retroactive copyright protection for sound recordings, which are protected internationally by the Rome and Geneva Conventions, to which Bulgaria is not a signatory. Until Bulgaria does sign, sound recordings copyrighted prior to August 1, 1993 are not protected.

Enforcement of the new laws is problematic. Authorities must establish a record of vigorous enforcement to make the laws credible. But straitened resources and difficult economic times will test Bulgaria's ability and resolve to protect IPR. A major U.S. pharmaceutical company notes continued problems with patent violations. A major U.S. beverage company estimates that it is losing 15–20 percent of its sales volume due to trademark infringement. Although this firm has successfully prosecuted two cases of piracy, it does not regard the fines or the publicity given the cases as sufficient to deter future infringement. In October 1993, a major U.S. motion picture association publicly threatened to file a Special 301 complaint against Bulgaria because of an estimated $10 million in annual losses from video piracy. For 1992, the International Intellectual Property Alliance estimated total trade losses for the U.S. of $47 million due to piracy.

8. Worker Rights

a. *The Right of Association.*—The 1991 Constitution guarantees the right of all workers to form or join trade unions of their own choice. This right appears to have been freely exercised in 1993. Estimates of the unionized share of the work force range from 30 to 50 percent. Bulgaria has two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria (CITUB), and Podkrepa. CITUB is the successor to the trade union controlled by the former Communist regime, but now appears to operate as an independent entity. Podkrepa, the independent confederation created in 1989, was one of the earliest opposition forces, but is no longer a member of the UDF. The two confederations cooperate on some tactical issues, particularly in the country's tri-partite body, the National Social Council, which includes employers and government. The Labor Code passed in December 1992 recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Military, police, energy production and supply, and health sectors are defined as essential services, and workers in these sectors are restricted from striking.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code institutes collective bargaining, which is practiced both nationally and on a local level. Only Podkrepa and CITUB are authorized to bargain collectively. This led to complaints

by smaller unions, which may in individual work places have more members than either of the two larger confederations. Smaller unions also complained that they are excluded from the National Social Council.

c. *Prohibition of Forced or Compulsory Labor.*—Some observers suggested that the practice of shunting minority and conscientious-objector military draftees into work units which sometimes carry out civilian construction could be considered a form of forced labor.

d. *Minimum Age for Employment of Children.*—The Labor Code sets the minimum age for employment of children is 16, and 18 for dangerous work. Employers and the Ministry of Labor and Social Welfare are responsible for enforcing these provisions.

e. *Acceptable Conditions of Work.*—The National Social Council adjusted the national monthly minimum wage on three occasions in 1993, most recently in July when it was raised to 1,343 leva, approximately $49. Inflation in 1993, forecast as 65 percent, dramatically increased the cost of living. The Constitution stipulates the right to social security and welfare aid and assistance for the temporarily unemployed. The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period per week. Bulgaria has a national labor safety program with standards established by the Labor Code. Conditions appear to be worsening owning to budget austerity and the growing private sector, which has weaker links with the labor inspection officials.

f. *Rights in Sectors With U.S. Investment.*—Overall U.S. investment is relatively small as of late 1993. Of the nine sectors covered in the Trade Act Report, only the "Food and Related Products," "Electric and Electronic Equipment," and "Other Manufacturing" sectors have an active U.S. presence as of late 1993. Conditions do not significantly differ in these sectors from the rest of the economy.

CANADA

Key Economic Indicators

[Millions of Canadian dollars unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real Gross Domestic Product (billions of 1986 C$)	556.0	560.0	[1] 570.5
GDP Growth Rate (pct.)	−1.7	0.7	[2] 3.2
Real GDP at Factor Cost by Sector (millions of 1986 C$):			
Manufacturing	87,851	88,047	[1] 91,413
Finance, Insurance, and Real Estate	80,035	82,834	[1] 85,353
Trade	54,555	60,167	[1] 61,842
Community, Business, and Personal Services	60,159	59,809	[1] 61,286
Transportation and Communications	40,176	40,904	[1] 41,594
Construction	31,090	29,034	[1] 27,913
Mining	19,711	19,938	[1] 21,833
Agriculture	11,595	11,025	[1] 12,035
Utilities	15,286	15,384	[1] 15,215
Logging and Forestry	2,718	2,946	[1] 3,219
Per Capita Personal Disposable Income	18,275	18,343	[1] 18,203
Personal Savings Rate (pct.)	10.1	10.6	[1] 10.4
Total Labor Force (000's)	13,757	13,797	[3] 13,984
Unemployment Rate (pct.)	10.3	11.5	[3] 11.4
Money and Prices—end of period:			
Money Supply (M2)	297,050	331,770	[4] 335,713
Bank of Canada Rate (pct.)	7.67	5.69	[5] 4.90
Chartered Banks' Prime Rate (pct.)	8.00	6.25	[5] 5.75
90-Day Commercial Paper (pct.)	7.52	7.46	[5] 4.88
CPI (1986 = 100)	126.2	128.1	[6] 130.9
CPI Annual Percent Change	5.6	1.5	[6] 1.9

Key Economic Indicators—Continued

[Millions of Canadian dollars unless otherwise noted]

	1991	1992	1993
Industrial Product Price Index (1986 = 100) ..	108.6	109.1	[6] 112.9
IPPI Annual Percent Change	−1.0	0.5	[6] 3.5
Exchange Rate (1 C$ = US cents) (average annual noon rate)	87.28	82.76	[5] 74.86
Trade and Balance of Payments:			
Merchandise Exports	141,097	156,567	[7] 174,264
of which, to the U.S	106,722	121,164	[7] 139,306
Merchandise Imports	136,107	147,588	[7] 162,044
of which, from the U.S	93,738	104,390	[7] 117,466
Merchandise Trade Balance	4,990	8,979	[7] 12,220
Balance with U.S	12,984	16,774	[7] 21,840
Current Account Balance	−29,035	−29,220	[7] −27,683
Balance with U.S	−5,277	−2,828	[7] −1,158
Gold Holdings (million US$)	649.0	478.0	[5] 351.0
Official Int'l Reserves (million US$)	16,901	11,909	[5] 11,081
Gross External Debt (billion C$)	368.1	404.0	N/A
Public Debt Charges: (Billion C$)	[8] 41.2	[9] 39.5	[10] 39.5

N/A— Not available.

[1] Average of first half 1993 (actual data), seasonally adjusted at an annual rate.
[2] First half 1993 percent change annualized.
[3] Third quarter average.
[4] M1 + chartered banks non-personal notice deposits +personal savings deposits, as of 9/30/93.
[5] Third quarter end of period.
[6] Embassy estimate.
[7] First half of 1993 annualized.
[8] FY91–92.
[9] FY92–93.
[10] FY93–94.
[11] Federal Govt. projection for FY1993–94. Canada's fiscal extends from April 1 to March 31.

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, the Canadian Wheat Board, and provincial electric utilities.

Canada is the most important trading partner of the United States. Although Canada developed as an exporter of natural resources and related products, the economy is now fully industrialized and produces highly sophisticated consumer goods and capital equipment. As of August 1993, Canada's annualized merchandise exports to the U.S. were US$111.8 billion, and annualized merchandise imports from the U.S. were US$98.7 billion. Motor vehicles and parts account for approximately 20 percent of U.S. merchandise exports to Canada, followed by exports of machinery and equipment and industrial equipment. The stock of total foreign direct investment in Canada in 1992 was US$113 billion, of which US$68.4 billion or 61 percent was U.S. foreign direct investment. Roughly 40 percent of the assets of Canadian manufacturing companies are foreign-owned; of this total, about 75 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 policy-makers at the federal and provincial level. The federal government's net debt in 1992 exceeded 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 governments account for over 40 percent of the federal budget, and public debt service payments account for about an additional 25 percent of spending. Further reductions of subsidies for regional development and other remaining dis-

cretionary programs such as defense, agriculture 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. The Bank 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 determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis to try to maintain orderly trading conditions and smooth rate movements.

3. *Structural Policies*

Prices for most goods and services are established by the market without government involvement. The most important exceptions to market pricing are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products).

The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. 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 foreign banks. In mid-1992 further financial sector reforms, which largely eliminate the remaining barriers among banks, trust companies and insurance companies, were implemented.

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. The last round of negotiations was held in December 1992; no date has been set for a resumption of the talks. While the United States remains ready to move quickly toward adopting an "open skies" agreement, the Canadian side is taking a more cautious approach, based on securing safeguards for the continued viability of its two major national airlines.

Telecommunications policies: Canada's long-awaited telecommunications legislation entered into force in 1993. Among its provisions, the new legislation limits foreign ownership of telecommunications firms to 20 percent. Carriers operating in Canada prior to 1987, but not meeting the Canadian ownership requirements, are grandfathered under Section 16 of the legislation.

4. *Debt Management Policies*

Canada's net public and private external indebtedness rose from US$89 billion (26 percent of GDP) in 1984 to US$218 billion (38 percent of GDP) in 1992, a relatively high figure for an industrialized 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 most non-tariff barriers to trade between the two countries. On January 1, 1994,

the North American Free Trade Agreement (NAFTA) 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 supply-managed commodities, fresh fruit and vegetables, potatoes, and processed horticultural products. All of these restrictions affect U.S. exports and the United States has pursued some of these issues under the GATT or the FTA.

Provincial legislation and Liquor Board policies regulate Canadian importation and retail distribution of alcoholic beverages. The Free Trade Agreement addressed a number of these policies (listing, distribution, and pricing) and provides dispute settlement procedures as they relate to wine and spirits. Provincial beer distribution practices were grandfathered under the FTA but were challenged by the U.S. under the General Agreement on Tariffs and Trade (GATT). The U.S. and Canada concluded a Memorandum of Understanding in August 1993 which significantly improves access to the Canadian market for U.S. beer. However, there continue to be a number of issues (such as cost-of-service charges) which affect importation of U.S. wine.

Several problems exist in the area of standards and labelling. 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, was slow in effecting the necessary regulatory changes and reviewing U.S. applications, but in October 1992 it accredited two major U.S. testing and certification bodies, Underwriters Laboratories and the American Plywood Association.

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. NAFTA addresses 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." Under NAFTA, only the value of services performed in the United States is subject to duty.

Canada restricts the direct export of Pacific salmon and herring by requiring that 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. The level of direct exports, however, has been disappointing. The U.S. is pursuing improved access in the mid-term review of the agreement.

Canadian industries have used Canada's Special Import Measures Act (SIMA) to restrict access to the Canadian market by U.S. companies. The past two years have seen a marked increase in anti-dumping complaints filed against a wide range of U.S. products, including carpets, steel, beer, lettuce, cauliflower, gypsum drywall, tomato paste, file folders, copper pipe fittings, fiberglass pipe insulation, and toothpicks. Dumping margins in successful cases constitute a significant barrier to U.S. exports.

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 increased the discrimination against foreign-owned publications printed in Canada.

Under the Investment Canada Act and Canadian policies in the energy, publishing, telecommunications and transportation, broadcasting and cable television sectors, Canada maintains laws and policies which interfere with new or expanded foreign investment. As well, foreign investment in the banking and financial services sectors is restricted under the Bank Act and related statutes.

The Investment Canada Act (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 "green field" businesses, and acquisitions worth less than C$5 million (C$150 million for U.S. investors—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 (including "split-run" editions), 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. Some exceptions to the policy are permitted, 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, FTA, and NAFTA requirements do not apply, Canadian government entities follow preferential sourcing policies favoring Canadian-based firms over foreign-based firms. In addition, Government 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 not covered by Canada's international obligations 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. NAFTA requires that Canada not impose offset requirements on NAFTA-covered goods and services procurements.

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, but not on those shipped directly by rail or through Great Lakes 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 and to limit application of the program to the four companies with which agreements were already in place. NAFTA will not change these provisions.

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.

The 1987 amendments to the Canadian Patents Act significantly improved protection for patented drugs and were 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. In February 1993 the Canadian government amended the

Patent Act to eliminate compulsory licensing for pharmaceuticals, thereby extending patent protection to the standard 20 years.

In 1993 Canada proclaimed the Integrated Circuit Topography Act, a law protecting semiconductor chip design.

8. Worker Rights

a. *The Right of Association.*—Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. *The Right to Organize and Bargain Collectively.*—Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. Among Canada's non-agricultural work force, approximately 38 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 for Employment of Children.*—Generally, workers must be 17 years of age to work in an industry under federal jurisdiction. Provincial standards (covering over 90 percent of the national work force) 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		7,945
Total Manufacturing		33,306
Food & Kindred Products	3,212	
Chemicals and Allied Products	5,389	
Metals, Primary & Fabricated	2,827	
Machinery, except Electrical	2,436	
Electric & Electronic Equipment	1,696	
Transportation Equipment	7,426	
Other Manufacturing	10,320	
Wholesale Trade		5,567
Banking		888
Finance and Insurance		12,938
Services		2,330
Other Industries		5,457
TOTAL ALL INDUSTRIES		68,432

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

CROATIA

The deterioration of Croatia's economy continues. One third of Croatia's territory, including 400,000 hectares of arable land, remains under occupation by Serb paramilitary forces. Its GDP in 1992 was half the size it was in 1990; 25–30 percent of its agricultural capacity has been destroyed. Industrial production is off 30–40 percent from 1992, largely a result of war and the disintegration of the old Yugoslav federation. Monthly inflation rates—at times verging on hyperinflation—averaged around 30 percent for most of 1993, and average per capita incomes are declining. Even so, foreign exchange reserves were comfortably over $1 billion in the last quarter of 1993.

Occupation of territories by Serb paramilitary forces has cut a key railroad line from the coast to the capital and the regionally-important Adria pipeline. Energy production has also suffered, as key oil fields in Slavonia remain under Serb occupation. Tourism, a key source of hard currency, has been devastated by the war in Croatia and Bosnia. Trade with Bosnia has ceased due to the continuing dismemberment of Bosnia's war-torn economy. Trade with Serbia is minimal due to hostilities and international sanctions.

Croatia's economy also carries the burden of 800,000 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, 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.

In October 1993, the government adopted an ambitious three-phase program intended to stabilize the economy and lay the foundations for long-term growth. The program targets fiscal stabilization, currency reform and accelerated privatization, but depends on cooperation with international financial organizations. This can not be assured until peace comes to the region.

Croatia has joined the IMF, IBRD and EBRD as one of the successor states to the former Yugoslavia. 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. Despite the difficult economic situation, foreign investors continue to identify opportunities in Croatia's relatively well-developed economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
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
Banking		0
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

[1] Less than $500,000.

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

CZECH REPUBLIC

Key Economic Indicators

[Billions of Czech crowns unless otherwise noted]

	1992 [1]	1993	1994 [2]
Income, Production, and Employment:			
Real GDP (1985 Prices) [3]	401.5	420.0	425.0
Real GDP Growth (pct.)	−7.1	0.5	1.0
GDP (at current prices) [3]	738.8	850.0	900.0
GDP by Sector [4]	N/A	N/A	N/A
Real Per Capita GDP (Crowns)	39,194	40,000	41,000
Labor Force (000's)	6,862	6,000	5,500
Unemployment Rate (Percent)	4.4	3.0	5.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	698.2	748.0	800.0
Base Interest Rate [5]	13.16	12.76	12.0
Personal Saving Rate	8.0	6.2	6.0
Retail Inflation	10.0	18.0	12.0
Wholesale Inflation (percent)	11.7	20.0	20.0
Consumer Price Index	11.2	20.0	18.0
Exchange Rate (Kcs/$):			
Official	29.49	28.77	29.00
Parallel (Vienna Market)	32.28	29.85	30.00
Balance of Payments and Trade (million U.S. dollars):			
Total Exports FOB [6]	8,110	9,200	10,000
Exports to U.S	242	360	450
Total Imports CIF [6]	8,920	10,600	12,000
Imports from U.S	410	520	800
Aid from U.S	32	33	30
Aid from Other Countries	1,470	1,200	800
External Public Debt	6,920	7,400	7,630
Debt Service Payment (paid)	1,300	1,400	1.500
Gold and FOREX Reserves	1,900	3,100	4,200
Trade Balance [6]	−810	−1,400	−2,000
Balance with U.S	−172	−160	−350

N/A—Not available.
[1] 1993 Figures are all estimates based on available monthly data in August 1993.
[2] Embassy estimate.
[3] GDP at factor cost.
[4] Czech statistical authorities do not collect data on GDP by sector.
[5] Figures are actual, average annual interest rates, not changes in them.
[6] Merchandise trade.

1. General Policy Framework

The Czech Government has continued the tight, IMF-endorsed economic and fiscal policies begun by the former Czechoslovak government in 1991, policies devised and initiated by many of the current policy-makers in the Czech Republic. Similarly, it has maintained the former government's program of broad privatization and wholesale legal reform in order to permit the continued operation of a viable market economy. However, during the second half of 1992 this process was temporarily delayed by the division of the country into separate Czech and Slovak Republics.

The Czech government is still adjusting to the economic consequences of the split while at the same time continuing down the road towards European economic integration. Despite some notable problems, such as restructuring newly privatized firms, dealing with the possible effects of a new bankruptcy law, rectifying a shortage of domestic capital, and coping with a generally weak demand for Czech goods in Western Europe, statistics indicate that the Czech economy as a whole seems to have bottomed out in late 1992 and remained stable through 1993. The economy is likely to remain at near current levels for the next several years before any significant growth resumes.

The government completed the first wave of privatization in early 1993, during which approximately 1,500 formerly state-owned large enterprises were transferred to the private sector. This was accomplished through the process of "coupon privatization" whereby citizens over the age of 18 were allowed to acquire shares of enterprises through the purchase of vouchers. Approximately 80 percent of Czechs and Slovaks eligible to participate in the voucher program did so, giving this country perhaps the highest per capita number of stock holders in the world. In addition, approximately 20,000 small businesses were transferred through direct sale. A second wave of privatization is scheduled to commence in late 1993, during which many of the remaining state enterprises will be sold. The private sector contribution to GDP is estimated to be about 45 percent by the end of 1993 and, following the second wave of privatization, should reach 70–75 percent by the end of 1994.

The 1992 budget for Czechoslovakia was in deficit by approximately $550 million, or roughly 2 percent of GDP. This can be blamed chiefly on an overestimation of the turnover tax revenues, an under-calculation of entitlement programs, and off-budget expenditures needed to cover government loan guarantees. In 1993, the government of the Czech Republic is expected to balance its budget at $14.5 billion, and as of August 1993 was running a surplus of slightly more than $100 million. The government is likely to meet its target of a balanced budget in 1994, although the budget will pay for some current expenditures with proceeds from the sale of state enterprises.

The central bank, or Czech National Bank, remains an independent monetary authority which has proven itself able to withstand political pressure. As the economy in the Republic has stabilized, the central bank has eased direct and indirect controls in an attempt to make credit generally more available for domestic markets. As part of this effort, the bank abolished interest rate ceilings in March 1992, and lowered reserve requirements from 9.5 to 8 percent in June 1993.

2. Exchange Rate Policy

The Czech government has followed a "hard crown" policy which has kept the crown comparatively stable relative to the U.S. dollar since January 1991. The official exchange rate has remained at the level of 28–30 crowns per U.S. dollar throughout 1993 and will likely continue to do so in 1994. The composition of the currency basket was changed in May 1993 from a mixture of five currencies to a new basket of German marks (65 percent) and U.S. dollars (35 percent). The crown is likely to become fully convertible within the next two years.

Under the Foreign Exchange Act of 1990, domestic or foreign companies in the Czech Republic are guaranteed the right to freely exchange crowns for hard currency in business-related, current account transactions. Current account transactions include the import of goods and services, royalties, interest payments and dividend remittances. Repatriation of earnings from U.S. investments is also guaranteed by the U.S.-Czechoslovak bilateral investment treaty which went into effect in December 1992. However, there is currently a 25 percent tax on repatriation of profits from the Czech Republic, and capital-account transactions still require a foreign exchange license. Companies are obligated to exchange any foreign convertible currency they earn for crowns, but, in exceptional cases, the state bank may grant permission to maintain a foreign-exchange account. Private persons do not need permission to have a foreign-exchange account. Additionally, if requested, banks must sell to foreign investors for Czech crowns foreign currency equal to revenue from investment. In this case, "revenue from investment" means income from business profits, interest, capital profits, securities, or intellectual property. Resident individuals may not purchase more than KC 7,500 (about $270) annually of foreign exchange to travel abroad.

3. Structural Policies

The recent division of the former federation, coupled with the continued shift away from a centrally-planned economy and towards the free market, continues to require adjustments throughout the legal, financial, and political structure. Some of the major changes are outlined below.

Taxes: A new tax system went into effect in January 1993 which provides uniform rates and is better aligned with EC tax policies. The corporate income tax or profit tax is 20 percent on income up to 200,000 Crowns and 43 percent on income over 200,000 Crowns. In addition, in 1993 the government implemented a 23 percent value added tax (VAT) as well as a personal income tax. A bilateral tax treaty between the United States and the Czech Republic was signed in September 1993 and should go fully into effect in January 1994.

Prices: Over 95 percent of price controls were eliminated in 1991. As of late 1993, only the price of utilities, rents, sugar, gasoline, fuel oil, coal and various municipal

services continue to be regulated. Remaining price controls are being gradually eased over time.

Wages: Although the 1993 budget law set guidelines for state enterprises to follow in granting wage increases, punitive wage taxes levied last year on increases above the ceiling were abolished. The 1993 guidelines limit average public enterprise wage increases to 5 percent real growth except in cases where productivity gains would warrant larger increases. Partly due to the elimination of the excess wage taxes and to reductions in corporate tax rates that have left more funds at their disposal, many enterprises ignored the guidelines and granted wage increases far above the limit in the first half of the year. Additionally, evidence indicates that management in many of the enterprises raised wages in anticipation of bankruptcy in order to squeeze as much from their companies as possible before dissolution. For these reasons, average wages grew by more than the government had envisioned.

After repeated warnings against wage inflation, the government reimposed punitive levies on excessive wage growth at the end of June 1993. For wage growth between 15 and 30 percent, companies unable to demonstrate productivity gains will be taxed at 100 percent of the excess in wages. For wage increases of more than 30 percent, the tax will equal 200 percent of the excess increase which is not justified by productivity growth.

Privatization: The Czech government completed its first wave of privatization in June–August 1993. Under this program, the majority of stock under large-scale privatization was sold through the voucher program, whereby citizens over the age of 18 were allowed to acquire shares of enterprises through the purchase of vouchers. Approximately 80 percent of Czechs and Slovaks eligible to participate in this program did so. A second wave of privatization is scheduled to take place between October 1993 and mid-1994. During this period, the Czech government plans to sell about 650 enterprises with a combined book value of approximately 145 billion crowns, representing 25 to 30 percent of GDP production.

4. Debt Management Policies

The Czech Republic maintains one of the lowest foreign debts in Central and Eastern Europe. As of July 1993, the gross foreign debt was approximately $7.9 billion, up from approximately $7.4 billion when the country divided in December 1993. Government debt represents approximately 17 percent of GDP, and current government plans call for the level of debt to drop to only 10 percent by the year 2000. The Czechs believe they can reach this level by payment of interest combined with general expansion of the economy. The current level of indebtedness is well within the limits specified by the Republic's agreement with the IMF.

Due mainly to the lending policies of the former communist regime, the current government is owed approximately $4.5 billion by various, chiefly socialist, governments around the world. First among them is Russia, which owes approximately $3 billion, then Syria, which owes approximately $750 million. It remains an open question whether any of these debts will likely be collected. Many of the debtor countries may refuse to acknowledge the Czech Republic's successor state rights to the Czechoslovak debt and so attempt to escape payment of their obligations.

5. Significant Barriers to U.S. Exports

The government of the Czech Republic is determined to create and maintain a free market, and has made the elimination of artificial trade barriers an important element of its overall economic policy. Thus, there are currently no significant policy barriers to U.S. exports to this country.

Some provisions of the new tax code which the Czech Republic implemented in 1993 have been criticized by U.S. and other foreign investors as inhibiting investment. In particular, the American Chamber of Commerce in Prague is concerned that under the new tax code, foreign companies that provide services in the Czech Republic are taxable in the Czech Republic if they continue for a stated period. Although many other countries, including the United States, tax in such cases, the tax is typically waived in tax treaties concluded under the guidelines recommended by the Organization of Economic Cooperation and Development (OECD).

With a few limited exceptions, such as some defense-related industries, all sectors of the Czech economy are open to U.S. investment. Until 1993 there had been official monopolies in tobacco and film distribution; the film monopoly was officially abolished in October 1993, however, and the tobacco monopoly is expected to be terminated before the end of the year.

In late 1991, Czechoslovakia signed a Bilateral Investment Treaty (BIT) and an agreement with the U.S. Overseas Private Investment Corporation (OPIC). The BIT was ratified by Washington in August 1992, and similar ratification by the Czechoslovak parliament occurred in autumn of 1992.

A bilateral tax treaty was signed with the Czech Republic in September 1993 and is likely to enter fully into force in January 1994. The United States granted permanent Most Favored Nation (MFN) status to Czechoslovakia in 1992 and to the Czech Republic as a successor state in January 1993. The Czech Republic has given verbal assurances that it will participate fully in GATT to lower tariff rates over the next ten years as economic conditions permit.

6. Export Subsidies Policy

A law on export promotion being considered by the Czech government will allow the Export Guarantee and Insurance Company (EGAP) to provide export guarantees and credits to Czech exporters at below-market rates. Additionally, the government maintains a fund (the Fund for Market Regulation) through which it purchases domestic agricultural surpluses for resale on international markets. For some commodities, pricing is established at a level which includes a subsidy to local producers.

7. Protection of U.S. Intellectual Property

The government of the Czech Republic continues the obligations agreed to by the former Czechoslovak government under the Bern, Paris, and Universal Copyright Conventions and is working to ensure that laws for the protection of intellectual property match those of Western Europe. However, enforcement of existing regulations is still spotty.

Enforcement of video piracy laws is an ongoing concern for U.S. video and motion picture exporters. While the level of awareness of the problem on the part of Czech officials is rising, economic losses continue to threaten the viability of these exports. There is no official estimate of losses, but the Czech Antipiracy Union has stated that 40 to 50 percent of the local market for video cassettes is lost to illegally produced or illegally imported video products. The Union filed 450 video piracy court cases in 1992, but enforcement remains lax and fines are low.

There have been similar concerns about software piracy. The U.S.-based Business Software Alliance recently opened an affiliate office in Prague, and also is working to raise the level of awareness on this and similar issues.

At least three disputes which date from the Communist era remain unresolved concerning alleged patent and trademark violations by Czech firms against U.S. interests.

8. Worker Rights

a. *The Right of Association.*—Workers in the Czech Republic 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 since 1991. Under the law, all workers are guaranteed the right to strike once mediation efforts have been exhausted; exceptions are those workers (nuclear power plant operators, military, police, etc.) in sensitive positions who are forbidden to strike.

b. *The Right to Organize and Bargain Collectively.*—Theoretically, workers also have the right to organize and bargain collectively, although the abolition 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, and the Czech Republic has adopted the same stance. There is no evidence or indication that such practices have occurred since the 1989 revolution.

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 Ministry of Labor and Social Affairs has set minimum wage standards to guarantee an adequate standard of living for a worker and, with special allowances, for his family 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.*—As far as the U.S. Government is aware, all of the above workers' rights are applied to firms with U.S. investment and do not differ from those in place in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		117

Note: Above figures are for the former Czechoslovakia. Disaggregated figures for the Czech Republic are not yet available.

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

[2] Less than $500,000.

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

DENMARK

Key Economic Indicators

[Millions of Danish kroner (DKK) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)[2]	581,720	588,721	590,000
Real GDP growth (pct.)	1.1	1.2	0.2
GDP at current prices[2]	717,110	745,741	754,500
By Sector:			
Agriculture	29,050	26,393	30,000
Energy, Water, Heat	12,957	14,327	15,000
Manufacturing	134,795	141,850	140,000
Construction	40,694	41,834	41,000
Raw Materials, Mining	7,040	6,377	7,000
Rents	72,217	74,404	75,000
Financial Services	21,336	21,542	21,500
Other Services	262,720	273,464	275,000
Government Services	158,994	166,360	170,000
Overlap Corrections	−22,693	−22,810	−20,000
Net Exports of Goods and Services	52,991	65,551	61,000
Real Per Capita GDP[2] (DKK, 1985 prices)	112,861	113,842	113,700
Labor Force (000's)	2,903	2,910	2,915
Unemployment Rate	10.6	11.4	12.5
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	4.3	1.8	1.3
Base Interest Rate (pct.)	11.4	11.6	11.0
Personal Saving Rate (pct.)	5.1	4.9	6.0
Consumer Price Index	2.4	2.1	1.2
Wholesale Inflation	1.0	−1.1	−0.8
Exchange Rate ($ per DKK)	0.1563	0.1657	0.1550

Key Economic Indicators—Continued

[Millions of Danish kroner (DKK) unless otherwise noted]

	1991	1992	1993[1]
Balance of Payments and Trade:			
Total Exports (FOB)[4]	229,765	239,912	231,500
Exports to U.S.[5]	10,576	11,584	10,300
Total Imports (CIF)[4]	206.798	203,536	192,000
Imports from U.S.[5]	13,045	11,473	9,000
Aid from U.S	N/A	N/A	N/A
Aid from other countries	N/A	N/A	N/A
External Debt	264,000	241,000	213,000
External Debt Service Net Interest Payments	35,634	34,517	30,100
Gold and FOREX Reserves	44,563	44,964	60,000
Trade Balance[4]	22,967	36,376	39,500
Balance with U.S.[5]	−2,469	111	1,300

N/A—Not available.

[1] 1993 figures are all estimates, generally based on six to eight-month data available as of October 1993.
[2] GDP at factor cost.
[3] M2 figures are not available. The money stock figure includes the private nonbank sector's share of monetary base plus short term (up to two years) bank deposits.
[4] Merchandise trade, excludes EU agricultural export subsidies.
[5] 1992 and 1993 figures include Puerto Rico. Effective January 1993, Danish trade statistics omit U.S. products imported into Denmark via other EU countries. Transshipped products formerly accounted for about one-third of Danish imports from the United States.

1. General Policy Framework

Denmark is a small, 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 effectively linking Denmark to the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea, which are increasingly meeting Denmark's energy needs. They supplied two-thirds of Denmark's energy consumption in 1992. Because Denmark remains dependent on imported raw materials, semi-manufactures and coal, ensuring adequate supplies has always been a major goal of Danish trade and industry policies. Denmark's active liberal trade policy in the EU, OECD, and GATT often coincides with U.S. interests. Danish trade with EU and EFTA countries accounts for more than three-quarters of total trade. The United States, Denmark's largest non-European trading partner, supplied close to six percent of total Danish imports in 1992, including almost one-third of coal imports, and more than 90 percent of aircraft imports.

Denmark's economy is now strong and well positioned to benefit from the EU single market which began January 1, 1993. Danish voters reversed their earlier rejection of the far-reaching "European Union" (the Maastricht Treaty) in a nationwide referendum on May 18, 1993, thus reinforcing Denmark's commitment to continued EU cooperation and integration.

The turnaround of the Danish economy since the late 1980's resulted from the former minority center-right coalition government's economic policies which in general have been continued by the Social Democratic Party-led majority coalition government which took power in January 1993. Tight fiscal policies, minimum increases in public expenditures and monetary and exchange rate policies similar to Germany's were major contributing factors in the turnaround. Nevertheless, a few important problems such as high unemployment and increasing public sector budget deficits remain.

Danish fiscal policy meets the conditions of the EU economic and monetary union (EMU). For example, Denmark complies with the prohibition against monetization of its central government deficits. Deficits are financed through the sale of government bonds and treasury bills at market terms. Despite broad political agreement on putting a lid on the public sector's size and costs, reduced tax revenues, increased unemployment benefit and other transfer income costs, and the introduction of recession response measures have led to growing budget deficits. The central government budget deficit projection for 1993, initially DKK 33.9 Billion, has been increased to DKK 54.5 Billion, or more than six percent of gross domestic product (GDP). The budget deficit for 1994, now projected at DKK 55.6 Billion, is likely to increase substantially. Nevertheless, in order to combat unemployment, the government is easing its fiscal policy through public investments and new job creation

measures. An income tax reform passed in 1993 will reduce marginal income tax rates beginning in 1994, with the revenue loss being offset in part by a new five percent labor contribution tax on gross incomes, and new environmental taxes.

Recently introduced foreign investment incentives include the establishment in 1992 of preferential "business zones" in high unemployment areas (as of October 1993 without any notable effect) and lenient income taxation of high-paid foreigners working in Denmark. Since 1989, the government has spent about DKK 65 million on promoting direct investment in Denmark by U.S. and Japanese high-tech companies, but so far this effort has borne limited fruit.

The Danish fixed exchange rate policy (see section 2), pursued since the early 1980s, requires a monetary policy which gives high priority to price stability. This together with fully liberalized capital movements has meant limited room for pursuing independent interest rate and liquidity policies. Danish interest rates are linked closely to those of Germany. In order to tighten management of money-market rates (without adjusting official interest rates), in April 1992 the Danish Central Bank, which holds monetary policy authority, introduced a new liquidity management system via weekly issuances of two-week deposit certificates and by providing liquidity to commercial banks via re-purchases of both treasury bills and deposit certificates. Low inflation together with monetary and the exchange rate policies have produced high real interest rates, which helped maintain a strong krone during the ERM crisis in July. On the other hand, high real interest rates impede 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 not to participate in its third phase (establishment of a single EU currency and relinquishment of national sovereignty over monetary policy). Since 1982, the government has successfully resisted solving Denmark's economic problems through exchange rate adjustments and it continues this policy. In August 1993, the trade-weighted value of the krone was almost two percent lower than in August 1992, due mostly to the volatile developments in the ERM in July 1993, when the ERM fluctuation bands were widened to plus or minus 15 percent. In comparison, the value of the krone in March 1993 was up more than eight percent due to the devaluations in 1992 of the British pound and the Swedish krone. Intervention by the Danish Central Bank (and German Bundesbank) protected the krone's position in the ERM, but drained foreign exchange reserves which in turn required new large government borrowing abroad. As foreign exchange markets stabilize, Denmark expects return flows of foreign exchange reserves and repayment of foreign debt.

The value of the krone against the U.S. dollar in August 1993 was almost 20 percent lower than in August 1992. Although by October the krone had strengthened by some four percent, deterioration in U.S. price competitiveness is likely to have a negative impact on U.S. exports to Denmark.

3. Structural policies

Danish pricing policies are based on free market principles. Entities with the ability to fix prices because of their dominance in the market are regulated by a competition council.

In spite of the tax reform passed in 1993, Danes generally concede that the tax system needs further overhaul to improve incentives for work and investment, and to reduce the "underground" economy, which today may equal as much as 10 percent of GDP. However, beginning in 1994, the government is reducing high Danish marginal income tax rates in order to bring the Danish income tax system closer to those of other EU countries, which are structurally different from that of Denmark. Uniquely among EU countries, Danish employers pay virtually no non-wage compensation. Most of employers' costs of sick leave and unemployment insurance are paid by the government. Employees pay their part of unemployment insurance out of wages. Another major concern is the high Danish value-added tax (VAT), which, at 25 percent, is the highest in the EU. However, as VAT revenues constitute more than one-quarter of the central government's total revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, but hopes that EU VAT rates, particularly those of Germany, will gradually approach the Danish rate.

Despite success in resolving most of Denmark's former structural imbalances, a number of problems remain, most notably high unemployment. Despite high unemployment, labor mobility, both geographically and sectorally, remains low in Denmark. This is in part due to lenient requirements to qualify for unemployment benefits and structural rigidity which prevents crossing craft lines. At present, about two-thirds of the cost of unemployment benefits is paid from general revenues. The

former government would have liked to see extensive labor market reform, including transferring a major part of the financing of the unemployment insurance system to employers and employees. However, the present government's efforts concentrate on new job-creation measures, including advancing public investment projects, some of which may be open to foreign, including U.S., competition.

4. Debt Management Policies

Since 1963, recurring, 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 28 billion in 1993. Consequently, foreign debt is expected to fall to about 24 percent of GDP by the end of 1993. Despite BOP surpluses, net interest payments on the debt continue to be a burden, accounting for some seven percent of total export earnings. Standard and Poor's and Moody's Investors services rate Denmark AA and Aa1, respectively, reflecting the strong economy and the large BOP surplus. Denmark's public sector is a net external debtor, while the private sector, including banks, is a net creditor. At the end of 1992, the public sector's net foreign debt, including foreign exchange reserves, was the equivalent of DKK 292 billion, of which krone-denominated government bonds accounted for about two-thirds.

The volatility of the dollar during the 1980s triggered a Danish government decision in early 1988 to reduce the dollar's share of the central government's debt denominated in foreign currencies. In 1984, more than 50 percent of this debt was denominated in dollars; in 1992 the ratio had dropped to one-third. The dollar debt was mostly shifted into debt denominated in German marks, Swiss francs, and European Currency Units (ECU).

Danish development assistance is large by international standards, accounting for one percent of gross national product (GNP), or about DKK 9.0 billion. It is almost equally distributed between bilateral and multilateral assistance. Bilateral assistance is concentrated in about 14 countries with a per capita GNP of less than $1,705 (1992). Denmark also supports the new democracies in East and Central Europe and in 1994 will spend about DKK 2.1 Billion for assistance (0.25 percent of GNP). Finally, Denmark plans to spend in 1994 DKK 4.1 billion for new multinational environmental and disaster programs, including "pre-asylum" refugee costs in Denmark. 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 few restrictions on imports of goods and services and on investment. Denmark adheres to all GATT codes and, as a member of the EU, also to all EU legislation which impacts on trade and investment. There are no special Danish import restrictions or licenses which pose problems for U.S. industrial products exporters. Agricultural goods must compete with domestic production, protected under the EU's common agricultural policy. Denmark also has stringent phytosanitary requirements.

With the implementation of the EU single market on January 1, 1993, most industrial standards, testing, labelling and other requirements are being harmonized within the EU. With respect to services, the Danish 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 continued operations 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. However, 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 (third-country 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 mobile telephone network (general system mobile—GSM) with the U.S. Bellsouth participating, competes with the government-controlled network.

Denmark's government procurement practices meet the requirements of the GATT Government Procurement Code and EU public procurement legislation. Denmark implemented the EU "Utilities Directive" January 1, 1993, but indications are that the voluntary "50-percent EU-origin requirement" will be interpreted liberally by the Danish government. 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

EU agricultural export restitutions (subsidies) in 1992 of DKK 5.4 billion were equivalent to about one-third of the value of Danish agricultural exports to non-EU destinations. Government support for agricultural export-promotion programs is insignificant. Denmark has no direct subsidies for its nonagricultural exports except for shipbuilding. 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. In 1989, Denmark restructured its development assistance and 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 was maintained. All these programs, however, apply equally to foreign companies producing in and exporting from Denmark.

A 1992 EU survey shows that Denmark has one of the lowest rates of state aids to industry (about two percent of GDP) among EU countries. Shipbuilding support, where Danish subsidization is within the ceiling set in the EU shipbuilding directive (nine percent of the contract value), accounts for almost one-third of total Danish state aids to industry. Denmark is an ally of the United States in the efforts to phase out shipbuilding subsidies internationally.

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). It adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty (PCT), the Strasbourg convention, and the Budapest convention. Denmark has also ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to the Arrangement's 1967 revision. A new Danish Trademark Act entered into force January 1, 1992 which also implements the EU Trademark Directive harmonizing EU member countries' trademark legislation. Denmark strongly supports efforts to establish an EU-wide trademark system. In addition, Denmark has legislation implementing EU regulations for the protection of the topography of semiconductor products which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Bern 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 embassy has no record of other complaints by U.S. organizations, exporters or subsidiaries in Denmark regarding infringement of intellectual property rights or unfair Danish practices in this field. Thus the impact on U.S. trade appears nominal. Denmark is neither named on the Special 301 Watch List nor on the Priority Watch List. Nor is it identified as a priority foreign country.

8. Worker Rights

a. *The 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 1992, 62,800 workdays were lost due to labor conflicts (down from 101,000 in 1991). Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *The Right to Organize and Bargain Collectively.*—Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Salaries, benefits, and working conditions are agreed in bienniel negotiations between the various employers' associations and their union counterparts. 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 force a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the labor court. 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-EU parts of the Danish Realm (i.e. the Faroe Islands and Greenland (a beneficiary of the U.S. Generalized System of Preferences), 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 in any national labor agreement is sufficient to provide a worker with a decent standard of living. Danish law provides for five weeks of paid vacation. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The 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. Unemployment benefits in Greenland are either contained in Labor Contract Agreements or come from the general social security system. A general unemployment insurance system in the Faroe islands was established in August 1992, replacing former unemployment compensation covered by the social security system. As in Denmark, sick pay and maternity pay fall under the social security system.

f. *Rights in Sectors With U.S. Investment.*—Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in those other sectors where no U.S. investment is found.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		315
Food & Kindred Products	137	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	50	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	21	
Transportation Equipment	(2)	
Other Manufacturing	85	
Wholesale Trade		503
Banking		(1)
Finance and Insurance		351
Services		116
Other Industries		13
TOTAL ALL INDUSTRIES		1,707

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ESTONIA

Key Economic Indicators

[Millions of Estonian kroons unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP	N/A	N/A	N/A
Real GDP growth (pct.)[1]	−13.6	−14.8	−6
GDP (current prices)[1]	1,827.2	14,254.8	21,500
GDP by Sector (pct.):[2]			
Agriculture	20	13	11
Energy and Water	2	5	4
Manufacturing	40	33	27
Construction	7	5	6
Rents	2	3	4
Financial Services	1	2	3
Other Services	21	34	34
Government, Health and Education	7	6	10
Labor Force (000's)	812.3	810	N/A
Unemployment Rate	0.1	1.7	2.2
Money and Prices:			
Money Supply (broad money, pct chg.)	N/A	68	21
Basic Interest Rates (pct. ann.)	N/A	21.3	N/A
Personal Savings Rate (pct. ann.)	N/A	15.5	N/A
Consumer Price Index (pct. chg.)	211	1,070	85
Exchange Rate (kroons per $):			
Official (period avg.)	[3] 1.75	11.7	13.2
Parallel (period avg.)	[3] 114	N/A	N/A
Balance of Payments and Trade (millions of U.S. dollars):[1]			
Total Merchandise Exports (FOB)	N/A	457	9,523.4
Exports to U.S. (FAS)	N/A	12	187.7
Total Imports (FOB)	N/A	491	10,019.8
Imports from U.S. (Cust. val.)	N/A	59	227.9
External Public Debt (mill. kr.)	N/A	375	1,430
Gold and FOREX Res. (mill. kr.)	N/A	2,502.4	4,585.4
Trade Balance	N/A	−34	−496.4

Key Economic Indicators—Continued

[Millions of Estonian kroons unless otherwise noted]

	1991	1992	1993
Trade Balance with U.S	N/A	−46	−40.2

N/A—Not available.
[1] Merchandise trade includes ruble zone. Source: For 1992, IMF and U.S. Department of Commerce figures in U.S. dollars. For 1993, U.S. Embassy estimates in kroons; based on nine months of data.
[2] 1993 Estimates based on 6 months of data.
[3] 1991 Figure is USSR/Russian rubles per dollar.

1. General Policy Framework

Estonia continues to make remarkable progress in moving from a centrally-planned to a market economy and increasingly is being touted as the mini-success story of the former Soviet Union. Estonia left the ruble zone in June of 1992 and its new currency, the kroon, has been a stable, hard currency which has been the most critical factor in Estonia's successful economic transformation. Estonia's trade with the west has grown over five-fold since 1991 and now accounts for approximately two-thirds of Estonia's total trade. Inflation is averaging about two to three percent per month since the beginning of 1993 (a drastic decline from a monthly average rate of 36 percent in the first half of 1992) and is expected to approach a single-digit annual rate in 1994.

There has also been commendable progress in Estonia's privatization program over the past year with approximately 70 percent of small-medium sized enterprises now in private hands. Large scale privatization, well underway, has been handled through a Treuhand-style privatization scheme.

On the fiscal side, the government reported a balanced budget for 1992 and for 1993. However, significant budgetary pressures are evidenced by the fact that the government has been forced to cut expenditures to keep them in line with revenues available, and by the extensive arrears in payments to the government, especially from public enterprises. These pressures are expected to become more acute in 1994 with growing unemployment, putting additional pressure on budgetary outlays.

Other formidable challenges remain. While macroeconomic stability has been achieved, structural adjustment is only in its preliminary stages. Personal incomes remain low; Estonia's financial sector is stronger, but still troubled, and privatization (particularly restitution) is far from complete. Growing protectionist sentiments are being voiced by members of those sectors of the economy (particularly agriculture) which have been most adversely affected by the economic restructuring. Nevertheless, the prognosis for Estonia is quite favorable with six percent GDP growth predicted for 1994.

2. Exchange Rate Policies

Estonia introduced its own currency, the kroon, in June of 1992. The monetary reform sought to increase sovereignty, achieve a stable and convertible currency, alleviate the cash shortage, and spur economic transformation. The psychological and economic effect of the kroon has been enormous and has been the most important factor in creating fertile conditions for economic restructuring and recovery. Since the kroon's introduction, hard currency reserves have nearly tripled and are now approximately $350 million.

To enhance stability and currency convertibility, and to promote reorientation towards European markets, the kroon was pegged to the German mark (within a three percent band) at a level which initially makes many Estonian goods competitive in western markets. The expectation was that inflation rates in Estonia would continue, at least in the medium term, to exceed those of Germany and thus significant slack was built into the value of the kroon. With the success of the kroon apparent, the Bank of Estonia decided at the beginning of 1993 to liberalize domestic holdings of foreign currency. Under amendments to the foreign currency law, Estonian companies active in foreign trade and companies of "good standing" are now permitted to open foreign currency accounts both in Estonian and foreign banks.

The exchange rate policy of Estonia is expected to remain conservative. With the continued inflow of hard currency, devaluation of the kroon is not anticipated nor is it permitted under Estonian law. Current policies should continue to exert downward pressure on inflation which is expected to approach the single digits in 1994.

3. Structural Policies

Pricing policies: In January of 1992, the prices of 90 percent of goods became free and the Government of Estonia has liberalized even further since then. The only

prices still controlled directly by the government are electricity, precious stones and metals, and energy inputs such as oil shale. Some goods and services (telecommunications, passenger transport) are subject to price regulation.

Tax policies: Although there are plans to improve the design and coverage of some individual taxes, most elements of a modern tax system—such as corporate income, personal income tax, value-added tax (VAT) are now in place. Property taxes were introduced in 1993. The corporate income tax is 35 percent of profit. Losses can be carried forward up to three years. Companies with at least 30 percent of foreign capital (minimum $50,000) are eligible for tax holidays of two years. The personal income tax is progressive, varying from 16 to 33 percent. An 18 percent VAT is levied on most goods and services. The VAT is levied on imports as they enter Estonia; the importing entity gets reimbursed for the amount of VAT on goods sold in Estonia or re-exported. The government aims to reduce the tax burden (personal and corporate income tax) and abolish tax holidays for foreign companies starting in 1994. There are several pieces of tax legislation currently before the Parliament which have not yet been adopted. The general trend in the legislation is to decrease taxes associated with production of goods and increase taxes associated with consumption.

Regulatory policy: Estonia's import and export regime is quite liberal. Excise duty is levied on tobacco products, alcohol and gasoline. Import duties exist for fur and goods made of fur (16 percent), cars, bicycles, launches, yachts (10 percent). The only export duties are levied on rape oil (100 percent), values of culture, e.g. cars from before 1950 (100 percent), metals, ferrous and non-ferrous waste and scrap (5 to 25 percent). There are some fields of economic activity which are subject to licensing, such as the trading of metals and precious metals, and trading of alcohol and tobacco products. Any legal entity registered in Estonia can apply for an operational license.

4. Debt Management Policies

Estonia made a joint statement with Latvia and Lithuania in the Spring of 1992 in which they declared that the Baltic states are not the legal successors of the Soviet Union and as such are not responsible for any amount of the Soviet Union's external debt. Discussions are ongoing with Russia on debts between Estonia and Russia, but Estonia has taken the position that its share of any debt is fully offset by claims on Russia.

With respect to other external debt, Estonia has signed ten loan agreements with foreign lenders, of which seven have entered into force. The total value of the money disbursed as of November 1, 1993 was $73.75 million. Total estimated disbursements in 1993 will amount to some $110 million. An additional $15 million is in the form of government credit guarantees.

On the basis of the current projections, the ratio of total external public debt to GDP is envisaged to increase to a peak of about 18.5 percent in 1995–1996 before declining to 12 percent in 2000. Debt service as a proportion of exports to non-FSU countries is projected to remain in the range of about five to eight percent during the period 1995 to 1999 before rising to just over ten percent in the year 2000.

5. Significant Barriers to U.S. Exports

Import licenses: With the elimination of import licenses on all products except alcohol, tobacco, pharmaceuticals and weapons, Estonia is a very receptive market for U.S. exports. The most significant barrier to growth of U.S. exports is not legal or regulatory, but rather stems from the limited purchasing power of the Estonian consumer coupled with the small domestic market.

Investment barriers: According to the Law of Foreign Investment, foreign investors have the same rights and obligations as domestic individuals or companies. However, in some sectors (mining, power engineering, gas and water supply, transport, telecommunications) foreign investors require a license. All property brought into Estonia by foreign investors as an initial capital investment is exempt from customs duties, but is applicable to VAT. A foreign investor has the right to repatriate profits after paying income tax or proceeds which it has received after the liquidation of the enterprise.

6. Export Subsidies Policies

The government provides no subsidies to Estonian exports.

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. The Trademark Law became effective on October 1, 1992; the Copyright Law on December 12, 1992. The Patent Law is still under development.

On August 26, 1992, the Estonian Parliament ratified Estonia's decision to join the World Intellectual Property Organization (WIPO). Estonia plans to join the Paris Industrial Property Convention and the Bern Copyright Convention as soon as the requisite domestic legislation is in place.

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: 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 nine thousand applications for trademark registration since 1992; about 75 percent of them are foreign companies, including some U.S. companies. The fee for a trademark registration is under $200.

Copyrights: The Copyright Law provides protection of software, cable television, publications, records, videos, broadcast satellite signals, etc. The Copyright Law applies to works, "which require protection in the Republic of Estonia by virtue of international treaties to which the Republic of Estonia is a party". Until Estonia has joined the Bern Copyright Convention, there is no legal protection of foreign intellectual property.

8. Worker Rights

a. *The Right of Association.*—The Estonian Constitution guarantees the right to form and join freely a union or employee association. The central organization of Estonian trade unions (EAKL) came into being as a wholly voluntary and purely Estonian organization in 1990 to replace the Estonian branch of the official Soviet Labor Confederation (AUCCTU). Workers were given a choice as to whether or not they wanted to join the EAKL. While in 1990 the Soviet Labor Confederation claimed to represent 800,000 members in Estonia, in 1992 EAKL claimed to represent about 500,000 members, organized in 30 unions. In 1993 their membership dropped to some 330,000 organized in 27 unions. EAKL explains the drop in membership by the break up of large government enterprises and privatization. A new public service workers union was organized which has a membership of some 40,000 (most of whom are also EAKL members). In January 1992 Estonia rejoined the International Labor Organization. There is a legal right to strike, and the unions are independent of the government and political parties.

b. *The Right to Organize and Bargain Collectively.*—While Estonian workers have now the right to bargain collectively, collective bargaining is still in its infancy. The government remains by far the biggest employer, with about 70 percent of the work force. According to EAKL leaders, the distinction between management and labor is not widely understood, and few collective agreements have been concluded between the management and workers of the specific enterprise. The EAKL has, however, concluded framework agreements with producers 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, and occupational safety. The Labor Code prohibits antiunion discrimination, and the employees have the right to go to court to enforce their rights. In 1993, a collective bargaining law, a collective dispute resolution law, and a shop steward law were adopted.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and is not known to occur.

d. *Minimum Age for Employment of Children.*—According to labor law prevailing in Estonia, the statutory minimum age for employment is 16. Minors aged 13 to 15 may work with written permission of a parent or guardian and the local labor inspector, if working is not dangerous to the minor's health, considered immoral, or inferences with studies, and provided that the type of work is included on a list the government is expected to prepare. State authorities effectively enforce minimum age laws through inspections.

e. *Acceptable Conditions of Work.*—The government, after consultations with the EAKL and the Central Producers Union, sets the minimum wage and reviews it monthly. However, the minimum wage is not sufficient to provide a worker and family a decent standard of living. It has not been increased since October, 1992. About three percent of the work force receive the minimum wage. Average wage is about three times the minimum. Under Estonian law, the standard work week is limited to 41 hours. The average work week is 40 hours for most white-collar workers and 41 hours for most blue-collar workers. According to EAKL sources, legal occupational health and safety standards are satisfactory, but they are extremely difficult to achieve in practice. The overriding concern of workers during the period of transition to a market economy is to hold on their jobs and receive adequate pay.

f. Rights in Sectors With U.S. Investment.—Overall U.S. investment is relatively very small.

FINLAND

Key Economic Indicators

[Billions of finnmarks (FIM) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1990 prices)	416.2	401.3	393.3
Real GDP growth (pct.)	−7.0	−3.6	−2.0
GDP (at current prices)	427.0	414.2	413.6
By Sector:			
Agriculture	13.09	10.49	10.2
Other Primary Production	12.71	12.07	12.3
Energy and Water	11.06	11.17	11.3
Manufacturing	89.67	92.85	102.8
Construction	36.96	26.01	18.0
Rents[2]	33.13	36.93	38.0
Financial Services	17.18	14.12	14.0
Other Services	122.40	120.15	117.0
Government, Health and Education	90.78	90.85	89.0
Net Exports of Goods and Services	−3.13	5.87	25.9
Real Per Capita GDP ('90 prices)	95,430	91,081	88,800
Labor Force (000s)	2,533	2,502	2,483
Unemployment Rate (pct.)	7.6	13.1	18.0
Money and Prices:			
Money Supply (M2) (annual percentage growth)	3.3	−0.4	−1.1
Base Interest Rate (pct.)	8.5	9.5	[3]6.0
Personal Saving Rate (pct.)	8.2	9.6	8.5
Retail Inflation (pct.)	−4.2	−7.3	−2.5
Wholesale Inflation (pct.)	−15.7	−9.9	−3.0
Consumer Price Index (1990=100)	104.3	107.4	110.0
Exchange Rate ($1.00/FIM)	4.05	4.48	5.7
Balance of Payments and Trade:			
Total Exports FOB	92.8	107.5	131.2
Exports to U.S	5.7	6.4	8.7
Total Imports CIF	87.7	95.0	101.8
Imports from U.S	6.0	5.8	7.6
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (central government)	52.8	113.8	160.0
Foreign Debt Service Payments	18.7	24.9	31.0
of which by Central Government	2.4	4.1	10.4
Gold and Foreign Exchange Reserves (year end)	33.7	29.5	32.0
Trade Balance	5.1	12.5	30.0
Balance with U.S	0.4	0.6	1.1

[1] Ministry of Finance estimates and extrapolation from nine-month data.
[2] Letting and operating of dwellings, use of owner-occupied dwellings.
[3] Since July 15, 1993.

1. General Policy Framework

The Finnish economy is completing its third year of a recession during which GDP has declined by a cumulative 13 percent. An economic recovery has yet to get underway, although sharply increased exports and much lower interest rates are expected to help spur a turnaround in 1994. The recession has resulted in a significant shake-out of the Finnish economy, including corporate downsizing, increased com-

petition, and cutbacks in government services. Also spurring structural change is prospective implementation of the European Economic Area (EEA) agreement between the European Union (EU) and the European Free Trade Association (EFTA) at the beginning of 1994 and possible membership in the EU in the years following.

An unemployment rate in the high teens and a sharp slowdown in consumer demand and business investment have resulted in declining government revenues and increases in counter-cyclical spending, producing large budget deficits. Also contributing is government assistance to the banking sector, particularly to the savings bank system. In 1993, the deficit will be about a third of total spending, the same level as 1992. The deficit is financed by foreign and domestic borrowing through the issuance of bonds; the balance has been roughly evenly divided between the two. The large deficits have brought about rapid increases in overall debt levels. Finnish government debt will increase from 35 percent of GDP at the end of 1992 to an estimated 64 percent at the end of 1994 and debt service will account for some 11 percent of government expenditures. Cuts in government social programs and aid to municipalities are helping to keep the debt from rising still faster. Also contributing are higher income tax rates and increases in indirect taxation. Finland's tax ratio will rise to an estimated 48 percent in 1994, a record.

Despite the high level of foreign debt servicing, Finland is experiencing a sharp improvement in its balance of payments; the current account should move into strong surplus in 1994 after years of deficits. The main contributing factor is a sharp increase in export sales, spurred on by a depreciated finnmark and declining real wages. Finnish international competitiveness has increased by about 40 percent as compared to its long-term average in the past several years. Inflation has stayed at a low level as wholesalers and retailers remain reluctant to pass along increased import prices in the face of collapsing domestic demand. The money supply remains constrained as well; domestic credit is tight as banks seek to regain profitability. They remain conservative in their lending practices, particularly to new businesses.

Finnish economic policy is based to a large extent on the prospect of further integration with Western Europe. The requirements of the EEA, for example, have resulted in new competition legislation that is helping to reduce the cartel-like nature of many Finnish industries. Legislation which took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The rise in stock market activity is also due to lower domestic interest rates and a tax law, also new in 1993, which sets a uniform rate of 25 percent on capital income taxation. Foreign direct investment has been slower to materialize, although Finland is hoping to capitalize on its location and expertise to serve as a "gateway" for foreign investors in the former Soviet Union.

Prospective EU membership and budgetary constraints have brought about some reform in Finland's highly protected agricultural sector, although in the membership negotiations Finland is trying to establish special support mechanisms which provide levels of support higher than the EU average. Membership negotiations may be completed as soon as early 1994, after which Finland would hold a national advisory referendum.

2. Exchange Rate Policy

The finnmark has been floating since the government and central bank broke its fixed link with the European Currency Unit (ECU) in September 1992 in the midst of a currency crisis. Shortly after the float was inititiated, the parliament passed new legislation allowing the float to continue indefinitely. It is unlikely that the government will attempt to establish a new currency linkage before Finland joins the European Union, which may occur as early as 1995.

The finnmark has declined by about 50 percent in relation to the dollar and over 20 percent in relation to the ECU since the float was initiated. This has strongly boosted Finland's international competitiveness and has dampened demand for imports from all sources, including the United States. Conversely, exports have boomed. The government has not regularly intervened in financial markets to influence the value of the finnmark. The government has encouraged lower interest rates to boost domestic demand, and these have acted to keep the currency's value at a fairly low level. Many analysts expect that in the medium term, the finnmark's value will increase somewhat, easing Finland's external debt burden in finnmark terms and dampening inflationary pressures.

3. Structural Policies

Finland plans to replace its turnover tax with a value added tax in June 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 EU practice. The government has tentatively decided to keep the basic VAT rate at the same rate as the current turnover tax, which is 22 percent. Some goods and services, including transportation services, accommodations, films, pharmaceuticals and books, will be taxed at a 12 percent rate and other services, including health care, education, insurance, and rentals will not be subject to the VAT. Agricultural and forestry products will continue to be subject to different forms of taxation outside the VAT. At the beginning of 1993, a uniform rate of 25 percent taxation on capital income took effect, including dividends, capital gains, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, where the tax rate will be increased from 20 to 25 percent at the beginning of 1994.

The change in capital taxation, along with a sharp decline in interest rates and liberalization of foreign investment legislation, have resulted in a strong revival of the Finnish stock market and greater corporate use of equity rather than debt financing. These developments have also substantially increased the foreign ownership share of many of Finland's leading companies, and may become the vehicle for the privatization or partial privatization of state-owned or dominated companies. The government has moved slowly on privatization, but has recently announced plans to reduce the government's stake in five state-dominated companies. Currently, 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 volume of government subsidies provided to Finnish industry has increased markedly as the Finnish economy has deteriorated. In real terms, industrial subsidies have increased by about 80 percent since 1988 and now constitute about 1.2 percent of GDP. The government has announced that it is planning to reduce subsidies in line with falling government revenue and the requirements of the European Economic Area agreement and possible EU membership. The government has said that to a large extent direct subsidies would be replaced with more general measures to improve the business climate.

4. Debt Management Policies

Finland has rapidly accumulated external debt in order to finance recession-induced budget deficits. Net foreign public sector debt increased from five percent of GDP at the end of 1990 to 37 percent in mid-1993. Overall net foreign debt increased from 27 to 57 percent of GDP during the same period. The government projects that the overall foreign debt burden will sharply decrease over the next few years, declining to 30 percent of GDP by 1997. Finnish corporations, formerly heavy users of foreign capital, are now reducing their foreign obligations and public sector foreign borrowing is leveling off. In response to the rapid increase in foreign borrowing, Moody's lowered its rating on Finnish long-term government bonds from its second to its fourth highest category (AA-) in March 1993. Finnish debt issues continue to sell easily in international financial markets, however.

Finland 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 has reduced foreign assistance from approximately 0.7 to 0.4 percent of GDP in the past two years.

5. Significant Barriers to U.S. Exports

The agricultural sector remains the most heavily protected area of the Finnish economy. In the past year, Finland has changed its basic system of protection from an import licensing system to a system of variable levies similar to the EU. The net effect is essentially the same, which is to protect domestic production from less expensive foreign imports. Surpluses of agricultural products are usually disposed of on world markets through government and producer-financed export subsidies. The government intends to end direct government financing of export subsidies. They would be replaced, however, by an agricultural marketing fund, much of whose capital would come from the government through off-budget expenditure. Import licenses are no longer required for any products, although some textile imports from Far Eastern suppliers are covered by quotas.

The Finnish service sector is undergoing considerable liberalization in connection with the EEA agreement and prospective EU membership. Legislation implementing EU insurance directives will take effect when the EEA takes effect. Finland will have exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. It is unclear whether such restrictions will cover workers' compensation as well. Auto insurance companies will not be required to establish a rep-

resentative office in Finland, but will have to have a claims representative there. The government will open up long-distance telephone service within Finland to competition at the beginning of 1994 and intends to open up international service some time after as well, although restrictions may be placed on foreign suppliers. The government requires that the Finnish Broadcasting Company devote a "sufficient" amount of broadcasting time to domestic production. Under the EEA agreement, Finland will adopt the EU broadcast directive, which has a 50 percent European programming target for non-news and sports programming. Finland does not intend to impose specific quotas.

Finland is a GATT Standards Code signatory and has largely completed the process of harmonizing its technical standards to EU norms.

Finland removed most restrictions on foreign investment and ownership through a law which took effect at the beginning of 1993. The new law abolishes various restrictions placed on companies with foreign ownership and eliminates distinctions between foreign and domestic shareholders. A large increase in foreign portfolio investment has occurred since the law took effect. The new 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 until the end of 1995, but the government has pledged that only in extreme circumstances would a foreign takeover of a Finnish company be prevented. New investments are not affected by the monitoring procedure. After 1995, only proposed investments involving the manufacturing of defense equipment will be monitored. A requirement to obtain the permission of local governments in order to purchase a vacation home in Finland will also remain. EEA implementation will eliminate most sectoral investment restrictions. Foreign investors instead will have to meet the obligations required of Finnish investors.

Finland is a signatory to the GATT Government Procurement Code and has a good record in enforcing Code requirements in letter and spirit. In the excluded sectors, particularly defense, counter-trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3 billion from U.S. suppliers. One hundred percent offsets are required as a condition of sale. In connection with the EEA agreement, Finland is implementing all EU procurement-related directives, although it has pledged not to enforce the portion of the EU Utilities Directive which would restrict procurement outside of the EEA.

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 as well as for some processed agricultural products. Finland does not provide subsidies to promote shipbuilding exports, although a mechanism exists on paper to do so. Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD's Working Party 6.

Finland is a member of the GATT Subsidies Code.

7. *Protection of U.S. Intellectual Property*

Finland has a good record in passing effective laws to protect intellectual property. With the exception of software, where unauthorized copying is widespread, enforcement is very good. 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 a member of all principal multilateral intellectual property organizations.

Finland's copyright legislation has recently been modified to conform with EU practice, as required by the EEA agreement. The EU software directive will be implemented when the EEA takes effect. Finnish authorities expect that the directive will make it easier to prosecute cases of unauthorized software copying. While piracy of audio and video recordings is only a small problem in Finland, industry representatives estimate that over 50 percent of software installed for business use has been illegally copied. Finland will start granting product patent protection for pharmaceuticals at the beginning of 1995; currently only process patent protection is available.

8. *Worker Rights*

a. *The Right of Association.*—The Finnish constitution contains specific guarantees for the right of workers to form trade unions and assemble peacefully. The right to strike is guaranteed by law. These rights are honored in practice; trade unions are among the most powerful political forces in Finland. About 85 percent of the work force is unionized. Unions are free, independent, democratic and associate in three federations as well as internationally.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is protected both in law and in practice. 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 anti-union discrimination which is prohibited by law.

c. *Prohibition of 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 that are 15 years old may work up to six hours per day under certain restricted conditions. 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.

f. *Rights in Sectors With U.S. Investment.*—There is no difference in the application of worker rights between sectors with U.S. investment and those without.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		91
Food & Kindred Products	1	
Chemicals and Allied Products	14	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		141
Banking		(1)
Finance and Insurance		1
Services		6
Other Industries		(1)
TOTAL ALL INDUSTRIES		322

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

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

FRANCE

Key Economic Indicators

[Billions of French francs unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP (FF1980)	3,571.8	3,621.5	[1] 3,586.1
Real GDP Growth (pct.)	0.7	1.2	[1] −1.0
GDP (at current prices)	6,746.9	6,998.8	[1] 7,086.8
of which:			
Consumption	4,043.9	4,210.8	N/A
Investment	1,409.0	1,401.1	N/A

Key Economic Indicators—Continued

[Billions of French francs unless otherwise noted]

	1991	1992	1993
of which corporate)	764.1	739.3	N/A
Government	1,249.5	1,323.0	N/A
Exports	1,532.4	1,616.8	N/A
Imports	1,511.4	1,524.8	N/A
Stocks	23.6	−28.0	N/A
GDP (at current prices) by Sector:			
Agriculture	204.7	197.3	N/A
Industry	1,586.0	1,630.2	N/A
(of which manufacturing)	1,131.0	1,146.5	N/A
Construction	349.2	367.5	N/A
Rents	559.6	608.7	N/A
Financial Services	291.7	288.6	N/A
Retail Trade and Services excl. Financial	2,425.5	2,504.0	N/A
Gvt. and Non-profit Serv	1,071.6	1,138.2	N/A
Value-Added Tax	258.6	264.3	N/A
Real per capita GDP (FF1980)	62,663	63,202	N/A
Labor Force (000's)	24,016	25,103	[2] 25,333
Unemployment Rate (pct.)	9.9	10.8	[2] 11.6
Money and Prices (annual percentage growth):			
Money Supply (M3)	2.5	5.3	N/A
Base Bank Lending Rate	10.36	10.0	[3] 8.15
Household Savings Rate	12.8	12.8	N/A
CPI (Year-end)	3.1	1.8	[1] 2.4
Intermediate Goods PI (avg.)	1.8	0.1	N/A
Exchange Rate (FF/$)	5.65	5.29	[1] 5.7
Balance of Payments and Trade:			
Total Exports (FOB)[4]	1,221.4	1,248.8	[2] 584.1
Exports to U.S (FOB)[5]	76.6	80.0	[2] 40
Total Imports (FOB)[4]	1,302.9	1,268.4	[2] 546.5
Imports from U.S (CIF)[5]	124.7	106.3	[2] 49.2
Gold and Foreign Exchange Reserves (FF millions)	326.6	294.2	N/A
Trade Balance (CIF/FOB)	−81.4	19.5	[2] 37.6
Balance with U.S (CIF/FOB)	−48.1	−26.3	[2] −9.2

N/A—Not available.

[1] Forecast.

[2] Mid-year.

[3] October 1993 data.

[4] Merchandise trade.

[5] International Monetary Fund, "Direction of Trade Statistics Yearbook" (1993). Customs based, includes trade with France's overseas territories.

1. General Policy Framework

France is the fourth-largest industrial economy, with a GDP of just under $1.3 trillion in 1992, or one-fifth the size of the U.S. economy. Industry accounted for 37.2 percent of output in 1992 while services and agriculture provided 56.2 percent and 2.8 percent respectively.

Following a period of healthy expansion from 1988 to 1990, French economic growth has slowed since 1991. French GDP may decline in 1993 by one percent, during this, its worst post-war recession. Unemployment continues to rise and reached nearly 12 percent in mid-1993. The only bright spot in 1992 was in the non-financial services sector where job creation continued, albeit at a slow pace. In the face of weak demand, corporate investment has declined. In 1992, corporations invested less than they saved for the first time in 30 years.

By contrast, inflation remains low, and is considerably below both Organization of Economic Cooperation and Development (OECD) and European Union (EU) averages. The 1.8 percent increase in consumer prices between December 1991 and December 1992 was the lowest 12-month increase since 1956. This trend will probably

continue in 1993. Low inflation rates have helped French producers remain competitive.

In 1992, the merchandise trade surplus (customs basis, fob/fob) was a record FF31 billion, a large swing from the 1991 FF30 billion deficit. Trade in industrial goods, including military equipment, showed the largest change, registering a FF7 billion surplus compared to a FF32 billion deficit in 1991. For the first time since 1986, the manufacturing sector ran a trade surplus. France posted a FF17 billion surplus with EU countries, a reversal from the 1991 FF8 billion deficit. With non-EU OECD countries, France reduced its deficit from FF71 billion to FF60 billion, primarily due to a decrease in the trade deficit with the United States, from FF38 billion in 1991 to FF27 billion in 1992. France reversed a 1991 FF17 billion deficit with non-OECD countries to a FF8 billion surplus in 1992. France should have a large merchandise trade surplus in 1993. However, much of this surplus is due to weak domestic demand, and in particular, to declining corporate investment which has decreased imports of capital goods.

Due primarily to the merchandise trade surplus and a record FF59 billion surplus in net tourism receipts, in 1992 France ran a current account surplus of FF19 billion, compared to a 1991 FF35 billion deficit. Despite the overall increase, the deficit on net investment income rose to FF41 billion in 1992 from FF29 billion in 1991 due to larger net interest payments to foreigners as a result of the continued inflow of foreign portfolio investment and to higher interest rates relative to those in other industrialized countries.

As an EU member, imports into France are subject to the EU's common external tariff and to the restrictions of the Union's Agricultural Policy. In addition, as the EU implements its "Single Market" program to remove all barriers to the free internal circulation of goods, services, capital and labor beginning in 1993, jurisdiction for a growing number of economic areas, including certain aspects of tax and investment policy, will transfer to the EU.

The French government had succeeded in progressively cutting the budget deficit from 1985 to 1991. Since then, the sharp drop in economic activity has led to a dramatic decline in revenues. This, coupled with increased spending on unemployment, retirement, health care and interest payments, has pushed the deficit upwards. The central government budget deficit as a percentage of GDP rose from 1.8 percent in 1991 to 3.3 percent in 1992 and is expected to be close to five percent in 1993. The general government budget deficit, which includes federal, local, and social security budgets, rose from 2.1 percent of GDP in 1991 to 3.8 percent in 1992, and is expected to be over 5.5 percent in 1993.

During most of 1992, French money supply (M3) grew slightly more than the Bank of France's targeted annual rate of four to six percent. Much of this growth was due to the popularity of money market funds offering high interest rates.

After double-digit growth in 1989–1990, credit growth slowed considerably from 1991 to the present. Businesses have cut back on their borrowing due to decreased investment in the face of weak demand and high real interest rates. Banks have become more cautious in their lending as unemployment and corporate bankruptcies increased in 1992 and 1993. Some banks are also burdened with the legacy of poor real estate loans. The government, compelled by growing deficits, was the only sector to increase its borrowing.

Throughout much of 1992 and the first half of 1993, the Bank of France was forced by high German interest rates and a series of exchange rate crises to maintain high short term interest rates to keep the franc within its Exchange Rate Mechanism (ERM) bands. Even after the bands were widened in August 1993, the Bank maintained high rates while it replenished the FF350 billion in foreign exchange reserves it spent in July to defend the franc. It is expected to lower interest rates only very gradually during late 1993 and early 1994 , keeping them broadly in line with German rates to prevent further serious pressures on the franc.

Despite high short-term rates, the average interest rate on long-term government bonds has declined from over 10.5 percent in September 1990 to less than six percent in October 1993 due in part to declining inflation. From late March, when the Balladur government came to power, until October, the average yield on long-term government bonds has fallen over 150 basis points.

2. Exchange Rate Policies

Within the established limits of the ERM, whose bands were significantly widened in August 1993, the value of the French franc is set by market forces. It is also 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.

The Balladur government has continued the "franc fort" (strong franc) policy of its predecessors. This policy lowers the costs of imports and keeps inflation and wage increases low, thereby improving French competitiveness. It is also seen as a way to build France's reputation for sound economic policies, and as the necessary step to ensure further progress in European Economic and Monetary Union (EMU). The franc appreciated 4.4 percent in nominal terms against other EU currencies between September 1992 and September 1993. Factoring in France's relatively low inflation rate, however, lowers appreciation to 3.1 percent in real terms. Furthermore, the franc depreciated 2.2 percent in real terms against all OECD currencies during this time. Compared to the dollar, the franc depreciated by 15 percent in real terms from September 1992 to September 1993, mainly due to the narrowing of the differences between interest rates in France and the United States.

3. Structural Policies

France has a centuries-old tradition of highly centralized administrative and governmental control of its essentially market economy. However, over the last decade, the government, both Socialist and Center-Right, has accepted that reducing government involvement is the best way to spur economic growth and reduce the high unemployment rate. This process continues under the Center-Right coalition which came to power in March 1993 under Prime Minister Balladur, a former Economics Minister. His government has begun a program to privatize 21 state-owned enterprises, including some of France's largest, such as Rhone-Poulenc and Elf-Aquitaine. Shares in the first of these, Banque Nationale de Paris, went on sale in October 1993.

The Balladur government's first budget measures for 1993, designed to reduce the deficit, had a restrictive effect on the economy. Subsequent 1993 supplements have by and large reversed this trend and may have a mild stimulative effect overall. These supplements include additional funding for training, unemployment, public infrastructure and capital infusion in state-owned enterprises. To tackle unemployment, the government is keeping the minimum wage increase as low as possible, and has reduced payroll taxes for businesses employing low-paid workers. It has given management and workers more flexibility in setting work hours and has increased subsidies for firms which temporarily reduce work hours instead of laying off employees. The Balladur government has followed up on campaign promises to reduce the burden of the welfare state on business. The fiscal measures taken so far represent a significant transfer from households to businesses.

In its proposal for the 1994 central government budget, the government seeks to limit increases in nominal government spending in 1994 to 1.1 percent and appears to be relying on privatization revenues, admittedly a one time revenue source, to keep the deficit from rising. The budget proposal also seeks to increase household consumption, as it would reduce personal income taxes by FF14 billion. However, the decrease in income taxes only partially offsets the 1993 increase in excise taxes and the general social contribution, a supplemental tax on all earned and unearned income. As a result the French government expects taxes as a percentage of GDP to rise from 43.6 percent in 1993 to 44.4 percent in 1994, one of the highest among OECD countries.

Taken together, the fiscal changes implemented in 1993 and proposed for 1994 are expected to reduce economic growth. However, the French government has little room to maneuver as it attempts to meet the Maastricht Treaty criteria of budget deficits of no greater than three percent of GDP and a debt to GDP ratio of no more than 60 percent. To meet these goals, the French government has adopted a five-year deficit reduction plan which would cut real non-interest spending by about one percent a year during 1995–1997.

4. Debt Management Policies

The 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 International Monetary Fund, the World Bank and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and 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. Testing requirements (which must usually be done in France) and standards sometimes appear to exceed reasonable requirement levels needed to assure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment, medical/veterinary equipment/products and agriculture phytosanitary standards.

The 1989 EU Broadcast Directive requiring a "majority proportion" of programming to be of European origin was incorporated into French legislation on January 21, 1992. France, however, specifies a percentage of European programming (60 percent) and French programming (40 percent). These broadcast quotas were approved by the EU Commission and became effective on July 1, 1992. They are less stringent than France's previous quota provisions which required that 60 percent of all broadcasts be of EU origin and that 50 percent be originally produced in French. The new 60 percent European/40 percent French quotas are applicable throughout the day, as well as during prime time slots. The prime time rules go beyond the requirements of the EU Broadcast Directive and will limit the access of U.S. programs to the French market. Nevertheless, the market share of U.S. films and television shows remains high.

The French government has recently revised its legal services system. Non-EU lawyers may no longer practice as legal consultants and are required to qualify as "avocats", on the basis of full-fledged membership in the French bar. Under the new implementing legislation which went into effect on January 29, 1993, this means that non-EU lawyers will have to pass either a "short-form" exam or the full French bar exam. Non-EU lawyers will qualify for a "short-form" exam provided they are able to prove that the foreign state or territorial unit in which they practice allows French lawyers to practice law "under the same conditions". Failing that, they will have to take the full French bar exam. Due to EU regulations, France is required to recognize law degrees for EU nationals but not third country nationals. Nevertheless, non-French EU lawyers, who are also required to qualify as "avocats", may do so via exams less stringent than those for non-EU lawyers. Meaningful access will now hinge on how implementing regulations are administered, including the interpretation of what is meant by granting access on a "reciprocal basis" and the nature of the exam to be imposed on non-EU lawyers.

Although French foreign investment procedures have been streamlined in recent years, French regulations distinguish among EU and non-EU firms with sales over $100 million or seeking to make acquisitions valued at over $10 million. Non-EU entities (publicly traded firms in which non-EU nationals own more than 20 percent of the equity or non-publicly traded firms in which non-EU nationals own more than 33.3 percent of the equity) are subject to an extendable one month prior review period. The acquisition can be denied or delayed for reasons of "national interest". Most large EU firms are only required to make an after-the-fact notification and for all EU firms, investments may only be blocked if they affect public health, public order or national security. No proposed U.S. investment has been denied authorization since 1990.

The recently passed privatization law prevents the government from selling more than 20 percent of a firm's state-owned capital to non-EU investors at the time of the government's sale. This limit does not apply to shares already held by non-EU investors, or to transfers after a firm's initial privatization. Exceptions are granted only in the case of a government-approved partnership with a French company. The law also gives the government the right to hold so called "Golden Shares". These "shares", or retained legal rights, allow the government to 1) require that investors obtain prior authorization from the Ministry of Economics; 2) name up to two non-voting members of the firm's board of directors; and, 3) block the sale of any asset to protect national interests.

6. Export Subsidy Policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding concessionality of foreign aid. The government has begun examining ways to concentrate the benefits of its export promotion efforts more on small and medium-sized businesses.

7. Protection of U.S. Intellectual Property

France is a strong defender of intellectual property rights and an advocate of improving protection. It is a party to the Bern Convention on Copyright, the Paris Convention on Patents, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on Trademarks.

Since 1984, French law has permitted judges to grant injunctive relief in patent infringement disputes 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 com-

puter software, although it limited protection to 25 years. It also improved the protection of video recordings.

8. Worker Rights

The French Constitution guarantees the right of workers to form unions. Although union membership has declined to ten percent of the work force, 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. 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. French law prohibits antiunion discrimination and forced or compulsory labor.

With a few minor exceptions for those enrolled in recognized apprenticeship programs, children under the age of 16 may not be employed. France has a minimum wage slightly over $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. Labor law and practice are uniform throughout all industries of the private sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		13,975
Food & Kindred Products	1,246	
Chemicals and Allied Products	4,347	
Metals, Primary & Fabricated	510	
Machinery, except Electrical	3,197	
Electric & Electronic Equipment	499	
Transportation Equipment	720	
Other Manufacturing	3,456	
Wholesale Trade		3,750
Banking		337
Finance and Insurance		2,363
Services		1,075
Other Industries		(1)
TOTAL ALL INDUSTRIES		23,257

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

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

REPUBLIC OF GEORGIA

Key Economic Indicators

[Billions of Russian rubles unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real NMP (1985 prices)	11.9	11.5	N/A
Real NMP Growth (pct.)	N/A	−4	N/A
NMP (at current prices)	19.1	113.6	N/A
By Sector:			
Agriculture	5.1	N/A	N/A
Energy and Water	5.1	N/A	N/A
Manufacturing and Construction	1.5	N/A	N/A
Rents	N/A	N/A	N/A

Key Economic Indicators—Continued

[Billions of Russian rubles unless otherwise noted]

	1991	1992	1993
Financial Services	0.03	N/A	N/A
Other Services	N/A	N/A	N/A
Government, Health, and Education	2.2	N/A	N/A
Net Exports of Goods and Services	5.3	N/A	N/A
Real Per Capita GDP (at current prices)	2.2	N/A	N/A
Labor Force (millions)	3.2	3.2	3.2
Unemployment Rate (pct.)	0.05	0.7	4.4
Money and Prices:			
Money Supply (M2)	N/A	N/A	N/A
Money Supply Growth	N/A	N/A	N/A
Base Interest Rate	N/A	N/A	N/A
Personal Savings Rat	N/A	N/A	N/A
Retail Inflation (pct.)	175.3	868	1,426
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	846	2,695
Exchange Rate (ruble/$)	N/A	4.14	913.7
Exchange Rate (C/$)	N/A	N/A	40,000
Balance of Payments and Trade:			
Total Exports	5.3	15.4	N/A
Exports to U.S	N/A	N/A	N/A
Total Imports	53.7	26.0	N/A
Imports from U.S. (mill rub.)	0.5	0.4	N/A
Aid from U.S	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A
Debt Service Payments (paid)	N/A	13.2	12.6
Gold and FOREX Reserves	N/A	N/A	N/A
Trade Balance (mill rub.)	−0.04	−9.5	−25.4
Balance with U.S.	−0.5	−0.4	0.18

N/A—Not available.

1. General Policy Framework

In 1993, Georgia continued a sharp three-year economic decline precipitated by the end of the former Soviet Union's (FSU) command-administrative system and the resulting dissolution of traditional trade links with other FSU countries. These countries had provided Georgia with the bulk of its industrial raw materials, including cotton, timber, and metals, as well as 80–85 percent of its energy supplies. Price rises for these products led to a sharp deterioration in Georgia's terms of trade, the effects of which continued to be felt in 1993. Russia's decision to end remittance provisions for Georgian enterprises through its banks compounded Georgia's inability to obtain needed inputs. The crisis was further aggravated by civil wars in Abkhazia and in the western Mengrelia region, which shut down industry in affected areas and blocked key railways and roads.

Following a 60 percent drop in net material production (NMP) in 1991–1992, the rate of decline in NMP hardly appeared to be slowing in 1993, despite Georgia's vastly reduced economic base. For example, in the first six months of 1993, industrial output dropped 29 percent compared to the same period the year before, and by the latter part of the year, most enterprises were functioning at less than 20 percent of capacity. Metallurgy, machine building and energy were among the hardest hit sectors. Official agricultural output was reportedly down a full 54 percent in the first nine months, although this figure probably did not take account of private production, which by the beginning of November occupied 42 percent of agricultural land. Livestock herds were being drastically reduced due mainly to shortages of grain feed.

The Russian Central Bank's reluctance to provide Georgia with requested cash rubles during the first three months of 1993 prompted the Georgian government in April 1993 to introduce a parallel currency, the coupon, in order to alleviate resulting shortages of cash. In July 1993, after Russia removed pre-1993 rubles from circulation, Georgia banned the ruble and made the coupon the sole legal tender. The

fall of 1993 was marked by a dramatic weakening of the coupon, due to Georgia's expansive monetary policies and high rates of inflation. For example, while in April the coupon had started out at roughly 1,000 coupons to the U.S. dollar, by mid-November it was trading at around 40,000/dollar Georgia's decision in late 1993 to rejoin the Commonwealth of Independent States left open the possibility of a return to the ruble zone.

The introduction of the coupon did little to alleviate Georgia's fiscal and monetary difficulties. During 1993, the Georgian National Bank undertook a massive expansion in credits, in part to allow state enterprises to import needed raw materials. Credits were also provided to the government to cover its deficit and to purchase foodstuffs. Between December 1992 and March 1993, 70 billion rubles were created on account (compared to stock outstanding of 100 billion rubles at the beginning of November 1992), and after introduction of the coupon, an unknown amount of coupons, but certainly in the trillions, were emitted. National Bank lending rates were also virtually nominal, making commercial banks dependent on these loans, rather than on private deposits, and this contributed to stagnation in the banking sector. Credit emissions led to a significant increase in inflation, which at the end of 1993 was estimated at a minimum of 30–40 percent a month. In October 1993, a new National Bank chairman indicated he would reverse previous policies by instituting sharp restrictions on credit emissions and by raising interbank lending rates.

The Georgian government's budget deficit for 1993 was projected at 66 percent of GDP in November of that year, up from 35 percent at the end of 1992. The increase was fueled mostly by large wage increases in September and November, costly rises in subsidies for bread and electricity—which make up a quarter of total expenditures—and the reduction of the economic base. With no other significant financing recourse than drawing credits from the Georgian National Bank, the deficit contributed to the unprecedented burgeoning of the money supply.

2. Exchange Rate Policy

Upon introducing the coupon in early April, the Georgian National Bank established a fixed exchange rate mechanism with the ruble which was adjusted several times to reflect the declining value of the coupon. However, after Russia removed pre-1993 rubles from circulation, the Bank of Georgia abandoned this system in favor of a floating exchange rate. Under this system, the National Bank publishes every week an official exchange rate of the coupon against major currencies, and undertakes no action to shore up the value of the coupon. The most important foreign exchange controls date to late March, when the National Bank promulgated a series of decrees designed to curtail speculation in foreign exchange trading. These measures include a prohibition on exchanging cash foreign currency for non-cash coupons, a requirement that foreign exchange purchased locally must be resold locally and not used to buy goods, and a prohibition against selling foreign exchange at more than a ten percent mark-up on the purchase price.

Neither Georgia's foreign exchange system nor exchange controls have any impact on the price competitiveness of U.S. exports.

3. Structural Policies

Little structural change took place in the Georgian economy in 1993, following wide-scale reforms a year earlier. Political instability and civil war in Western parts of the country were the focus of policy-makers' attention and this prevented initiatives in the economic area.

Most prices were freed in February 1992. The only exceptions include those for bread, utilities and transportation, which remain heavily subsidized. In mid-November, Georgian authorities increased bread prices from 70 coupons (less than one cent) per kilogram to 700 coupons, and allowed ten percent of state bread supplies to be sold at the production price of 7,000 coupons per kilogram.

In March 1992, Georgia accomplished its transition to a new tax structure by abolishing the old turnover tax and adopting a system which relies heavily on a 14 percent VAT tax, a variable enterprise profit tax and excise taxes levied especially on wine products. Toward the end of 1993, the Georgian government was contemplating only minor adjustments to the system, including an initiative to exclude exports and include imports in the coverage of VAT taxes, as well as to establish a more transparent division of rates for the enterprise profit tax.

Beginning in early 1992, the Georgian government began the free distribution of small plots of land to both rural and city residents. By late 1993, more than 40 percent of cultivated land had been turned over to private hands. An industrial privatization program begun in March 1993 had led to the selling off of less than one percent of state property by the end of October. More extensive privatization was being held up by delays in distributing investment vouchers to the population. Neverthe-

less, private business was growing, and towards the latter part of 1993, it accounted for an estimated seven to eight percent of employment in the country.

4. Debt Management Policies

Towards the latter part of 1993, Georgia was contending with levels of debt with other countries of the FSU that appeared unmanageable—given Georgia's minimal export capacity—and raised the specter of resource cutoffs. This was especially the case with energy imports, for which Georgia owes considerable sums. It is estimated that Georgia owes Turkmenistan between $80 and $100 million for natural gas deliveries, and another $15 million to Azerbaijan, Russia, Kazakhstan and Uzbekistan for natural gas transit fees. Georgia's electricity debt to Russia, Turkey and Azerbaijan is $37 million dollars.

Discussions with Russia were at the center of Georgia's debt management policies in 1993. The Georgians agreed to Russia's "zero option," under which Russia assumed Georgia's share of the debt owed by the old USSR in exchange for Georgia releasing all claims against Russia for all-Union property. Problems continued with regard to an undetermined amount of cash credits owed by Georgia to Russia according to clearing house agreements, which Georgian enterprises fully utilized but which Russian enterprises did not. It is estimated that Georgia owes Russia 25 billion rubles for unutilized credits from 1992. Georgia has signed only one agreement recognizing its debt to another CIS state, Azerbaijan, for three billion rubles.

Georgia's level of debt to countries outside the CIS grew in 1993. In 1993, the country assumed trade credits worth $10 million dollars from the EC, and $50 million from Turkey. In addition, in late 1993, Tbilisi was also expecting to receive 40 million ECU from the EC, 40 million DM from Germany, and about $5 million from China. Georgia has received no loans from multilateral organizations, aside from humanitarian aid donations.

5. Significant Barriers to U.S. Exports

Georgia's policy of encouraging imports has meant few established barriers to U.S. products. Georgia maintains import licenses on a number of goods whose unrestricted sale and use could be considered dangerous. These items include medicines, medical equipment, chemicals, industrial vestiges, drugs, weapons and ammunition. However, obtaining the necessary license does not appear to pose substantial difficulties. The effect of any Georgian barrier on U.S. trade and investment is minimal. A U.S.-Georgia trade agreement providing for reciprocal most-favored-nation status was signed and entered into force during 1993.

6. Export Subsidies Policies

Georgia does not provide any type of significant export subsidy. In fact, government policy in 1993 was to discourage exports, mostly through licensing requirements that are not required for imports. Furthermore, it is importers, not exporters who receive preferential financing. At most, a small number of exporters may receive discounts in purchases of imported raw materials such as cotton from government reserves, but this does not seem to be a systematic practice. Georgia is not a GATT contracting party.

7. Protection of U.S. Intellectual Property

Laws on patent and trademark protection are adequate, but copyright protection is nonexistent. In accordance with decrees issued in March 1992, a Patent office under the Committee of Science and New Technologies administers and approves patents and trademarks, utilizing the classic system of patent inspection. Georgia is a member of the Patent Cooperation Treaty and the Madrid Agreement of 1929 on Trademarks. There is currently no law on copyrights in effect, and the Georgian government, while working on one, does not expect to issue it before May 1994. The Union of Writers regulates disputes regarding book authorship and honoraria, but its decisions are legally unenforceable. Georgia is not listed on any Special 301 Watch Lists, nor is it identified as a Priority Foreign Country.

Patent and trademark protection do not appear to pose special problems. We are not aware of any systematic cases of patent infringement, but brand counterfeiting is known to have taken place, although not on a large scale. Patent terms are for the standard twenty years, although after four years there is compulsory licensing to domestic firms of rights held by foreigners. No important sector is excluded from the availability of a patent. Registering a trademark costs only $520 and this can be renewed every five years. There are no procedural barriers to obtaining a trademark, although Georgia operates on the "first come, first serve system," where the first to register the trademark in Georgia obtains the right, unless the trademark is internationally known, or registered under the Madrid Agreement.

The absence of any legal protection on copyrights has allowed for some pirating of U.S. motion pictures, although not on a large scale. Due to the very low levels of U.S. trade and investment with Georgia, we assess the impact of any of Georgia's intellectual property practices on U.S. trade and investment as minimal.

8. Worker Rights

Georgia relies on Soviet-era legislation which guarantees most major labor rights, although efforts to refine these laws were underway in late 1993. Resources devoted to investigation and enforcement of complaints, centered in the Labor Ministry, are slim. In 1993 there was little interest in labor activism, due to the profound economic crisis Georgia was undergoing.

a. *The Right of Association.*—The Soviet-era Labor Code allows workers to freely form unions and associations. These associations must be registered with the Ministry of Justice. In late 1993, the Georgian government was looking to implement specific legislation that would allow for strikes and prohibit management retribution against striking workers. A single confederation of trade unions, made up of about 30 sectoral organizations, is active in Georgia, and was steadily losing membership throughout 1993.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code also grants the right to workers to organize and bargain collectively, and this right is freely practiced in the country. Anti-union discrimination is prohibited.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited under the Labor Code. Instances of this practice are rare.

d. *Minimum Age for Employment of Children.*—According to the Labor Code, the minimum age for employment of children is 14 years, and those between 14 and 16 years are allowed to work at most 30 hours per week. The minimum age is widely respected, and officials know of no sectors where the rule is systematically violated.

e. *Acceptable Conditions of Work.*—Acceptable conditions for work generally follow the old Soviet pattern. A nationally mandated minimum wage applies to the government sector. In November 1993, it was revised to 23,000 coupons a month. The labor week is 41 hours, although the government was considering adopting a standard 40-hour week. The Labor Code permits higher wages for hazardous work and allows a worker to refuse to perform if the work could become a danger to his life, but otherwise has insufficient safeguards for worker well-being.

f. *Rights in Sectors With U.S. Investment.*—Conditions in sectors where there is U.S. investment do not differ from those in other sectors of the economy.

GERMANY

Key Economic Indicators

[Billions of DM unless otherwise noted]

	All Germany		
	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP[2] (1985 prices)	2,635.0	2,676.0	2,622.5
Real GDP Growth Rate[2]	4.5	1.6	−2.0
GDP by Sector (1991 prices):			
Agric., Forestry, Fishing	33.8	36.4	N/A
Manufacturing, Mining, and Construction	1,005.8	1,002.1	N/A
Trade and Transportation	376.8	376.9	N/A
Services	791.2	826.6	N/A
General Government/Households	335.7	342.5	N/A
Real GDP Per Capita[2]	41,124	41,255	39,916
Civilian Labor Force (mil.)[2]	30.7	30.9	31.2
Unemployment Rate[2] [3] (annual average pct.)	5.7	5.9	7.3
Money and Prices:			
Money Supply (M3)[4]	1,597.7	1,718.7	1,739.9
Commercial Interest rate	11.31	12.0	10.0
Personal Savings Rate[2] [5]	14.5	13.9	13.3
Retail Inflation (1985 = 100)[2]	107.1	109.8	112.0
CPI, (1985 = 100)[2]	110.7	115.1	119.7

Key Economic Indicators—Continued

[Billions of DM unless otherwise noted]

	All Germany		
	1991	1992	1993[1]
WPI, (1985 = 100)[2]	96.7	96.8	95.7
Exchange Rate (ann. avg. DM/$)	1.6612	1.5595	1.65
Trade and Balance of Payments:			
Total Exports (FOB)	665.8	671.2	590.0
Total Exports to U.S	41.7	42.6	N/A
Total Imports (CIF)	643.9	637.5	545.0
Total Imports from U.S	42.2	42.4	N/A
Gold and FOREX Reserves[4]	69.1	99.5	84.2
Trade Balance	21.9	33.7	45.0
Balance with U.S	−0.5	0.2	N/A

N/A—Not available.

[1] Estimates based on latest available data.
[2] Western Germany only; all German GDP data are incomplete.
[3] Percent of civilian labor force.
[4] 1993: latest available data.
[5] Bundesbank definition.

1. *General Policy Framework*

German fiscal policy continues to be driven by the financial demands of reunification. Following unification the German government extended its generous social welfare system to eastern Germany and committed itself to quickly raise eastern German production potential via public investment and subsidies for private investment. The budget cost of these policies was increased by the decision to rapidly raise eastern German wages to western German levels, which raised unemployment levels, increased the costs of unemployment compensation and of labor costs in government-owned firms being prepared for privatization, and necessitated more generous subsidies to attract investment in the east. As a result, western Germany has had to transfer vast sums to eastern Germany, estimated at about DM 152 billion annually or 5.0 percent of all-German GDP in 1992. These transfers accounted for the dramatic ballooning of public sector borrowing.

The current recession in Germany has further contributed to the widening fiscal deficit as tax revenues weakened and anti-cyclical expenditures rose. Despite the recession the German government has sought to narrow the federal budget deficit through a variety of tax and fee increases, public spending restraint, and more recently, cuts in certain social benefit levels. Nonetheless, inflated by the sluggish economy, the overall public sector borrowing requirement (including all levels of government and major "off-budget" funds and agencies) was DM 170 billion in 1992 and is expected to be about DM 230 billion in 1993.

Unification also fueled inflation as eastern German demand, financed by transfers from the west and by conversion of east German currency into DM at a highly favorable rate of exchange for easterners, strained western production capacities. High wage increases in Germany in 1991 and 1992 added to inflationary pressures. Inflation was particularly pronounced in services, less so in manufactured goods, which could be imported from other countries with slowing economies and spare capacity. The German central bank (Bundesbank) responded to rising inflation 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 started upon a course of gradual and cautious easing in September 1992. Since then short-term official rates have declined by 3.0 percentage points, with the most recent cut in October 1993. However, pressure continued on the European Monetary System's exchange rate mechanism in the absence of appropriate realignment of the exchange rate parities. As certain other ERM currencies fell through the lower limits permitted by the existing fluctuation bands linking the ERM currencies, some EU governments were forced to remove their currencies from the system and EMS governments eventually opted to widen the fluctuation bands.

The Bundesbank places overriding importance on price stability. Recent relatively high rates of inflation (the CPI rose 4.0 percent in 1992) and money growth, as well as concern over wage developments and fiscal deficits, led it to ease interest rates less rapidly than desired by other ERM countries, in particular France. It is widely

accepted that given the lack of a fundamental exchange rate realignment, the Bundesbank's reluctance to ease more quickly has contributed to the current recession in other European countries. Even though inflation in other ERM countries is subdued and they regard lower short-term interest rate cuts as appropriate for their economies, they were constrained to follow the Bundesbank lead to protect their currencies.

The Bundesbank follows policies it judges appropriate for the German economy, denying a role as "central bank for Europe" even though the discipline of the EMS/ERM meant that the Bundesbank effectively sets interest rates for other ERM countries. The widening of the fluctuation bands has provided increased exchange rate flexibility for EMS/ERM members but most have opted to pursue monetary easing only very cautiously. Consumer price inflation and monetary growth in Germany have moderated somewhat in recent months and are widely expected to continue to do so in the near future. Therefore it is expected that the Bundesbank will continue its reductions of interest rates, contributing to an eventual easing of monetary conditions and renewed growth in Europe.

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 minimum reserve requirements and two official interest rates, the Discount rate (as of October 21 at 5.75 percent) and the Lombard rate (as of October 21 at 6.75 percent). It also steers short-term interest rates through providing liquidity to the banking system, primarily via repurchase operations.

2. Exchange Rate Policies

The Deutsche mark is a freely convertible currency, and the government does not maintain exchange controls. Germany participates in the exchange rate mechanism of the European Monetary System.

3. Structural Policies

The coming into effect of the single European market, January 1, 1993, failed to propel the economy out of its current recession. Rather, the EU-mandated increase in the value-added-tax (VAT) from 14 percent to 15 percent, only helped fuel inflation. On the other hand, German government efforts to improve competitiveness have led to plans for structural changes in the telecommunications and energy sectors. The federal government announced its intention to privatize the state-owned telephone company, DBP Telekom. The German anti-trust agency is also actively trying to break up existing monopolies in the energy sector and has recently taken legal action against several German electricity and natural gas suppliers to void contracts it considers anti-competitive.

Liberalization and deregulation efforts have opened up German markets to U.S. firms in these sectors for the first time. For example, cost pressure on DBP Telekom resulting from its heavy investment commitments both in east and in west Germany have forced it to become more competitive in its tendering procedures. U.S. firms have benefitted from this new openness. U.S. suppliers of telecommunication goods and services have also successfully entered the mobile telephone sector, both as equipment providers and investors. Further liberalization in the telecommunications sector is likely to continue as the EU has mandated that all telephone monopolies be eliminated by 1998.

While Health Minister Seehofer's 1992 health reform is considered to have successfully curtailed health care expenditures, it has had a negative impact on the health care industry. The reform, which includes a freeze of the statutory health insurance companies' drug budgets at the 1991 level, has dealt an especially hard blow to the pharmaceutical industry. However, while the demand for new drugs declined by up to 30 percent, the demand for generics increased dramatically. The reform is sure to lead to structural changes within the pharmaceutical industry.

The Treuhand's privatization effort is slowly coming to an end. Of the 13,260 businesses that were in the Treuhand's portfolio, only 401 businesses are left as of October 18. American companies have been among the most active foreign investors in east Germany, with more than 200 currently doing business in the new federal states. These firms have made an investment commitment of some DM 7 billion and have created or preserved more than 42,000 jobs. GM-Opel and Esso AG have made substantial green-field investments. The pending purchase, of the power generation/coal mining conglomerate MIBRAG, by a U.S./U.K. consortium, which is currently in its final stage, would boost overall U.S. investment by nearly DM 1 billion. These U.S. investments in the east may provide additional opportunities for U.S. firms exporting to Germany.

A new U.S.-FRG civil aviation agreement is nearing signature and should provide further opportunities for U.S. airlines to expand in this market.

4. Debt Management Policies

Due to large current account surpluses from the 1970's to 1990, Germany is a net foreign creditor.

5. Significant Barriers to U.S. Exports

Germany is one of the world's strongest economies, and—refreshingly—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: The FRG 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. An example is the recent imposition of a quota for "dollar" bananas under the EU's banana import regime.

Services Barriers: Conditions of access vary considerably, but the 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.

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.

Government Procurement Practices: Selling to German government entities is not always an easy process. As a broad statement, German government procurement is non-discriminatory and appears to comply with the General Agreement on Tariffs and Trade (GATT) Agreement on Government Procurement as well as the terms of the U.S.-FRG Treaty of Friendship, Commerce and Navigation. That said, it is undeniably difficult to compete head to head with major German suppliers who have long-term ties to German government purchasing entities. Those areas which fall outside of GATT agreement coverage, such as some military procurement, purchases by the Transport Ministry, or procurement of services, are the most susceptible to these problems.

Investment Barriers: The German investment climate is very open, but some of the concerns mentioned above, such as access to services markets and standards and procurement questions, also apply to investment. In addition, there is a lack of transparency in negotiating contracts for privatization of firms formerly belonging to the communist regime of the GDR.

Customs Procedures: To the best of our knowledge, customs procedures at German ports-of-entry are relatively innocuous.

6. Export Subsidy Policy

Germany does not directly subsidize exports outside the EU 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 finding against this program.

7. Protection of U.S. Intellectual Property

Germany is a member of the World Intellectual Property Organization and party to 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 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. U.S. audio-visual companies are concerned, however, that national treatment does not extend to the distribution of funds raised through levies on blank recording tapes and rentals.

Legislation to transpose the EU software copyright directive into national law was passed in June 1993. It is expected that this new law will meet U.S. concerns about

intellectual property rights protection for computer software by lowering the standards of originality which had undermined the level of protection for many business application programs.

Under the Seehofer reform (see section 3), a reference price scheme for pharmaceuticals sets a maximum reimbursement price for statutory health funds and mandates that patients pay the difference for drugs that exceed this price. This has led to a de facto price regime for medication and will eventually place 70 to 80 percent of all drugs on the German market into three categories, two of which can include patent protected drugs. The pharmaceutical industry is concerned that this will lead to an erosion of patent protection for drugs. According to current provisions, all new and innovative drugs are excluded from the reference price system. However, if a group of patent protected drugs have comparable therapeutic substances or comparable therapeutic effects they will only be exempted from the reference price system as long as all of the original patents are in effect. Thus, once the first patent in a group expires, all other drugs in the group will be subject to the reference price system regardless of whether or not they are still under patent protection.

8. Workers' Rights

a. *The 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. *The 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 firms, coupled and overlapping with an autonomous private collective bargaining system developed between the unions and employers organizations. The system of co-determination 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 "generally binding" by the Government 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 may 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 Union, and thus the world. 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,111
Total Manufacturing		20,951
Food & Kindred Products	1,686	
Chemicals and Allied Products	4,020	
Metals, Primary & Fabricated	995	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	4,960	
Electric & Electronic Equipment	1,084	
Transportation Equipment	5,065	
Other Manufacturing	3,142	
Wholesale Trade		3,328
Banking		2,001
Finance and Insurance		4,666
Services		790
Other Industries		1,545
TOTAL ALL INDUSTRIES		35,393

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

GREECE

Key Economic Indicators

[Billions of drachmas unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1970 prices)[2]	504.2	508.8	513.7
Real GDP Growth (pct.)	3.4	0.9	1.0
GDP (at current prices)[2]	11,058.7	12,595.8	14,359.2
By Sector:			
Agriculture	1,838.7	1,880.8	N/A
Energy and Water	292.0	338.5	N/A
Mining	157.0	162.2	N/A
Manufacturing	1,736.4	1,940.8	N/A
Construction	785.1	849.2	N/A
Rents	771.7	946.1	N/A
Financial Services	349.7	457.3	N/A
Other Services	3,035.1	3,621.0	N/A
Government, Health and Education	2,092.9	2,399.9	N/A
Net Exports of Goods and Services	-1,347.9	-1,459.8	-1,674.4
Real Per Capita GDP (constant 1991 thousand drachma prices)	1,084.0	1,085.0	1,087.0
Labor Force (000's)	3,933.3	4,083.0	4,083.0
Unemployment Rate (percent)	8.5	9.0	9.5
Money and Prices (annual percentage growth):			
Money Supply (M2) (end period)	1,742.9	1,989.5	N/A
Base Interest Rate[3]	28.0	29.0	26.0
Personal Saving Rate	18.0	18–19	17.0
Retail Inflation	19.5	15.8	14.5
Wholesale Inflation	16.7	11.3	11.0
Consumer price index	19.5	15.8	14.5
Exchange rate (DRS/$):			
Official	182.3	190.7	230.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade (millions of dollars):			
Total Exports (FOB)[4]	6,797.1	6.008.8	5,400.0
Exports to U.S[5]	495.0	382.6	148.7

Key Economic Indicators—Continued

[Billions of drachmas unless otherwise noted]

	1991	1992	1993 [1]
Total Imports (CIF) [4]	19,104.6	19,902.0	18.000.0
Imports from U.S [5]	923.5	848.9	340.3
Aid from U.S	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	23,914.0	23,069.0	24,100.0
Debt Service Payments (paid)	5,786.1	8,038.2	7,800.0
Gold and Foreign Exchange Reserves	6,096.0	5,588.0	6,500.0
Trade Balance [4]	−12,307.5	−13,893.0	−12,600.0
Balance with U.S [5]	−428.5	−466.0	−191.6

N/A—Not available.

[1] 1993 Figures are all estimates based on available monthly data in October 1993.
[2] GDP at factor cost.
[3] Figures are actual average annual interest rates, not changes in them.
[4] Merchandise Trade, Bank of Greece Data, Transaction basic.
[5] Customs Data (National Statistical Service of Greece). 1993 Figures cover January-May period.

1. General Policy Framework

Greece has been a member of the European Community (now the European Union) since 1981 and enjoys a relatively open, free-market economy. The public sector constitutes 50 to 60 percent of gross domestic product (GDP), a substantial portion of the total official economy. It has a population of 10.3 million and a work force of about four million. In 1992, the official per capita GDP was $7,573. Estimates put the unrecorded economy at 30 percent of GDP. Services, including government services, are responsible for 59 percent of economic output. Agriculture constitutes 15 percent of GDP. 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 EU form the core of invisibles earnings. Net EU inflows are running at $4 to $5 billion a year, five to seven percent of GDP.

Current government economic policies have the objective of meeting the targets of the Maastricht Treaty for EU Economic and Monetary Union (EMU) and the provisions of the 1992 Single Market. The new government that took office on October 13, 1993 has pledged that it will continue efforts to lower inflation to a single digit and to reduce the public sector deficit, which is estimated at about 15.5 percent of GDP in 1993. It also intends to sell minority share holdings of certain state enterprises and organizations. The ambitious privatization program initiated by the previous government has been scaled back substantially. The new government will concentrate its efforts on the continuation of fiscal restraint with an incomes policy aimed at protecting the real income of workers and maintaining growth.

Greece's huge government deficit stems from past debts and 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. Deficits are financed primarily through treasury bills. Presently banks must put 15 percent of their deposits into Treasury Bills; this requirement will be phased out by January 1, 1994.

New tax laws were passed on June 18, 1992 which introduced substantial fiscal reforms to enable Greece to implement EU taxation directives. Changes included a lower tax rate 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. A new investment incentives law, introduced in July 1990, redefines the types of "productive investment" that qualify for incentives. The law puts greater emphasis on tax breaks and reduces grants and loan-interest subsidies.

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. 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 they are expected to fall within the monetary program prepared by the Bank of Greece.

2. Exchange Rate Policy

Greece has followed a relatively "strong drachma" policy during 1993 as a means of holding down inflation. Although the Bank of Greece manages a gradual depreciation of the drachma, the rate of depreciation has been close to the differential between Greek inflation and the rates of Greece's principal trading partners. The Greek drachma does not yet belong to the EU's Exchange Rate Mechanism.

Foreign exchange controls have been progressively relaxed since 1985. Medium- and long-term capital movements for EU and non-EU countries have been fully liberalized. Operations in securities by Greek residents in non-EU countries remain restricted. Controls still remain on short-term capital operations (with a maturity of less than a year) with all countries. The controls are scheduled to be lifted on June 30, 1994.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EU 1992 Single Market and the Maastricht Treaty on Economic and Monetary Union.

Pricing Policies: The only remaining price controls are on pharmaceuticals and some rents. 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. Government-set prices and subsidies, e.g., public transport prices, distort the economy, but they 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 levied on profits before the distribution of dividends. The new tax law abolished the dividend tax.

—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 eight 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 EU 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 public sector debt was recorded at 116 percent of GDP in 1992. However, when central government debt guarantees and military debt are included, total state indebtedness is probably closer to 125 percent of GDP, of which nearly one third is owed to foreigners (about $30 billion at the end of 1992). 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 1992 (interest and amortization) was equal to 133.8 percent of exports and 10.3 percent of GDP. With no new net borrowing, Greece's external debt service will be around $7.8 billion in 1993. About two-thirds of the external debt is denominated in currencies other than the dollar.

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 EU.

5. Significant Barriers to U.S. Exports

Most barriers to U.S. exports are imposed by the EU. Many trade barriers to U.S. products have disappeared over the past three years, but several Greek-specific barriers exist in services in such areas as law, accounting, aviation, tourism, and motion pictures:

—Greece maintains nationality restrictions on a number of professional and business services, including legal advice. These restrictions have been recently lifted for EU citizens.

—Barriers also exist in accounting for non-EU citizens. U.S. accounting firms in Greece circumvent this barrier by employing EU-country nationals as auditors (as of June 1992, citizens of EU countries have been allowed to perform auditing in Greece).

—Foreign air carriers may not sell ground services for aircraft to other airlines. This will soon change at least for EU airlines. The Greek flag carrier, Olympic, has a partial monopoly to provide ground services to other airlines.
—Greek residents are limited on the amount of foreign exchange they may spend on personal travel to 2,000 ECUs per trip ($2,300).
—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:
—Both local content and export performance are elements which are seriously taken into consideration by Greek authorities in evaluating applications for tax and investment incentives. However, they are not legally mandatory prerequisites for approving investments.
—Greek tax authorities also continue in some cases to withhold refunds on royalties, despite the U.S.-Greek bilateral tax treaty and despite streamlined procedures put into place January 1, 1990. In some cases, Greek tax authorities have ruled that a U.S. company has a permanent establishment in Greece, thereby making the question of royalty refunds moot. The tax authorities then apply the withheld royalties against tax liabilities arising from being declared a Greek establishment. Such action can only be overcome by waging a protracted (up to six to eight years) court battle to prove non-residency. Consequently, some U.S. firms write off the 25 percent withholding on royalties as noncollectible and take the deduction against their U.S. taxes. In some recent cases, refunds have been made.
—U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in (1) the mineral sector, where restrictions continue to apply to non-EU investors; (2) banking, where only 40 percent of the shares of Greek state banks is open to non-EU residents; and, (3) land purchases in border regions.

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece adheres to EU procurement policies, and Greece has also recently joined the GATT Government 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 sizable 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. The real impact of Greece's buy national policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are stressed.

6. Export Subsidies Policies

The Greek government does not use any form of subsidies to support exports. Some agricultural products receive subsidies from the EU. Greece, as an EU 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 Industrial Property, the European Patent Organization, the World Intellectual Property Organization, and the Berne Copyright Convention. As a member of the EU, the government intends to harmonize fully its laws with EU standards. Current Greek law extends 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. Piracy of copyrighted products is currently widespread in Greece. Industry estimates are that 65 percent of video cassette rental transactions involve pirated product. Over 80 licensed and unlicensed television stations frequently broadcast American movies and television programs without authorization or payment of royalties.

Greece took a major step toward addressing this problem by enacting a new copyright law in February 1993. This law offers a high standard of protection for all copyrighted works. Its greatly increased penalties should serve as a deterrent, if properly enforced. Greece now has a powerful tool that the government can use to substantially reduce copyright violations. The U.S. and Greece have agreed to an ambitious enforcement of the new law. The new law relies heavily upon a new intellectual property office (OPI) to supervise implementation. This new office has not

yet been established. How effective the law is will depend directly upon how well OPI functions. Due to the piracy situation, Greece was placed on the USTR's "Watch List" under the "Special 301" provision of the 1988 Trade Act.

8. Worker Rights

a. *The 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. This rigidity restricts the flexibility of firms and the mobility of Greek labor.

b. *The Right to Organize and Bargain Collectively.*—The right 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 employers are seldom severe. There are no restrictions on collective bargaining for private workers. Social security benefits are legislated by parliament and are not won through bargaining. Although civil servants have no formal system of collective bargaining, they negotiate their demands with the Ministry to the Prime Minister.

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 for Employment of Children.*—The minimum age for work in industry is 15 with higher limits for certain activities.

e. *Acceptable Conditions of Work.*—Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job-related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate.

f. *Rights in Sectors With U.S. Investment.*—Although labor management relations and overall working conditions within foreign business enterprises may be among the more progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		129
Food & Kindred Products	(1)	
Chemicals and Allied Products	63	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	28	
Wholesale Trade		65
Banking		(1)
Finance and Insurance		(1)
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		429

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

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

HUNGARY

Key Economic Indicators

	1991	1992	1993[1]
Income, Production, and Employment:			
Nominal GDP ($billion)	30.6	31.3	N/A
Real GDP Growth (pct.)	-11.9	-4.5	0 to -3
GDP Per Capita, nominal ($)	2,982	3,431	N/A
By sector (bil. current forint):			
Agriculture	205	208	N/A
Mining	71	66	N/A
Manufacturing	493	587	N/A
Energy	93	122	N/A
Construction	117	149	N/A
Trade	335	361	N/A
Hotels, Restaurants	64	84	N/A
Transport, Communications	190	205	N/A
Financial Services	44	66	N/A
Real Estate	134	174	N/A
Education	89	112	N/A
Health, Social Work	83	102	N/A
Other Community Services	160	216	N/A
Taxes on Products	269	354	N/A
Total	2,346	2,805	N/A
Industrial Output (pct. chg.)	-19	-19	N/A
Labor Force (000's)	6,400	6,400	N/A
Unemployment (year-end, pct.)	7.5	12.3	12–13
Money and Prices:			
Broad Money (bil. forint)	1,170	1,487	N/A
Gross Savings (pct. of GDP)	18.1	18.5	N/A
Gross Investment (pct. of GDP)	20.8	19.0	N/A
Consumer Price Index (pct. chg.)	35	23	20–22
Avg. Exch. Rate (forints per $)[2]	74.8	79.0	N/A
Govt. Spending (pct. GDP)	57.0	60.1	N/A
Trade and Balance of Payments (mllions of U.S. dollars unless otherwise noted):			
Hard currency account:			
Total Exports	9,971	10,710	N/A
Exports to U.S	392	347	N/A
Total Imports	11,066	11,082	N/A
Imports from U.S	310	282	N/A
Overall Trade Balance	-1,095	-372	N/A
U.S. trade balance	82	65	N/A
Current account balance	267	324	N/A
Total For. Investment	3,100	4,850	6,000
Gross Debt	22,700	21,400	N/A
Net Debt	14,600	13.300	N/A
Debt Service Ratio (pct.)	40.4	29.0	32
FOREX Reserves Excl. Gold	3,900	4,000	5–6,000

N/A—Not available.

[1] Estimates based on data available in October 1993.
[2] The forint is pegged to a half-DM, half-US$ basket.

1. General Policy Framework

Hungary's democratic government began its four year term in May 1990. Its ambitious economic reform plan is replacing central planning with private ownership and free markets. The record to date is mixed: the economy has been stabilized and inflation tamed, but economic growth expected in 1992 is now not foreseen until 1994 at the earliest.

On the plus side, Hungary's receptive investment climate has attracted over half the foreign direct investment in Eastern Europe. The private sector now produces some 40 percent of GDP. Three-fourths of trade is with OECD countries, and trade accords with the European Community (EC), European Free Trade Association (EFTA), and "Visegrad" partners (Poland, the Czech Republic and the Slovak Republic) will further boost trade. Foreign exchange reserves have risen sharply and are now healthy. A high foreign debt burden has been met assiduously. The forint is convertible for business purposes. Interest rates and inflation are well below their 1991 peaks. Hungary has over half a million private entrepreneurs and some 15,000 joint ventures.

On the minus side, few benefits of reform are yet visible to the average Hungarian individual and firm. The number of those living below the official subsistence level has doubled since 1989, to 1.6 million. Industrial output at the end of 1992 had plunged to its 1975 level. Inflation appears stuck at around 20 percent. Due to lower agricultural exports, exports are off this year after three years of strong increase. The current account surpluses of the past three years may become a $1.4–1.7 billion deficit in 1993. Joblessness jumped by two-thirds in 1992, topping 20 percent in hardest-hit regions, and could rise from the mid-1993's level of 13 percent. Hungary still has Europe's highest per capita convertible currency debt burden. Firms face 63 percent payroll taxes, 30–40 percent interest rates, and a banking system loath to lend to risky private ventures. The farm sector is in crisis. A high budget deficit reveals a fiscal system still in need of basic overhaul, plagued by chronic revenue shortfalls and overly generous social benefits.

More vigorous implementation of reform measures is difficult in the run-up to the spring 1994 national elections. Partly as a result, the economy is not expected to turn up in 1993, and only modest growth at best is likely in 1994.

2. Exchange Rate Policies

The forint could be fully convertible by the end of 1994; it already is for most trade purposes. Foreigners may freely repatriate cash capital and profits (the National Bank requires that an equivalent amount in forints be on deposit with a Hungarian bank). Firms may convert forint profits (but not take out forint loans) to buy hard currency imports. As of July 1992, foreigners can open forint bank accounts in Hungary and use forints to buy Hungarian goods and services. The hard currency limit for Hungarian tourists was raised in 1992 from $50 to $350 a year. Hungarian firms can take foreign loans with the central bank's approval; banks may do so without prior permission. 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). A joint venture must return its hard currency income to Hungary and hold it in forints in its commercial account, exposing it to inflation and devaluation risks. As a sign of the forint's strength, the official and black market rates are now almost equal.

In December 1991, the forint's exchange rate was pegged to a basket consisting half each of the European currency unit (ECU) and the U.S. dollar. In August 1993, events in Europe's currency markets led the central bank to substitute the German mark for the ECU. The forint has appreciated in real terms, as devaluations have lagged behind the inflation rate. For 1993 through October, the central bank devalued the forint five times by just under 15 percent, less than inflation of 20–22 percent. An appreciating forint makes imports cheaper and cools inflation, but makes it harder for exporters to sell abroad. The central bank sets the exchange rate daily and can adjust it by up to five percent without government approval. As of July 1992, commercial banks no longer must sell their foreign currency to the central bank and a limited interbank foreign exchange market has been in operation.

3. Structural Policies

Hungary introduced value-added (VAT) and personal income (PIT) taxes in 1988. PIT rates range from 12 to 44 percent. In August 1993, the three VAT rates of zero, six and 25 percent were replaced with two of 10 and 25 percent. Medicines will not be subject to VAT taxes until the end of 1994. Excise taxes are levied on gasoline, alcohol and tobacco. The 63 percent total payroll taxes for social benefits, split 51 and 12 between employer and employee, are among the world's highest. The United States has a tax treaty with Hungary.

Joint ventures with capital above Forint 50 million ($515,000), over 30 percent foreign participation, and at least half of revenues from manufacturing or hotel construction and management can receive tax breaks of 60 and 40 percent their first and second five years of operation. (The standard corporate tax rate is 38 percent.) These rise to 100 and 60 percent for priority export sectors: machinery and machine

tools, packaging, the environment, electronics, tourism, telecommunications, pharmaceuticals, agribusiness, and vehicle parts. These incentives will expire on December 31, 1993 (existing benefits will be grandfathered); their extension is under consideration. The government is also thinking of ending joint ventures' exemption from import duties on production equipment. These changes reflect domestic firms' complaints of discrimination and a feeling in the government that tax incentives aggravate the budget deficit without attracting significant foreign investment.

Over 90 percent of prices are set by the market; the government still sets prices for electricity, gas, pharmaceuticals, water supply and public transport. State subsidies fell from 11.8 percent of GDP in 1989 to 5.9 percent in 1992. Liberalized prices and subsidy cutbacks pushed inflation to 35 percent in 1991, but tight monetary policies and wage restrictions cooled this to 23 percent in 1992. Consumer prices have risen much more than producer prices as consumer subsidies have been halted. For 1993, consumer price inflation is projected at 20–22 percent.

4. Debt Management Policies

Hungary's mid-1993 gross foreign debt of $21.3 billion makes it the world's tenth most-indebted country, with the highest per capita debt in Europe. Hungary has met all debt service requirements on schedule and has vowed to continue that policy. Its responsible debt management has assured it continuous access to credit markets. (U.S. rating agencies have assigned Hungary Ba1/BB+ ratings. Standard and Poor also maintains a "positive" rating outlook.) Most of Hungary's debt is held by German and Japanese banks, not by governments. In 1992, principal and interest on external debt equalled 12.4 percent of GDP. In 1989, the ratio of debt repayment to convertible currency proceeds was over 75 percent; in 1992, it was only 26–27 percent.

Four-fifths of Hungary's external debt is in medium- and short-term loans; less than 10 percent is long-term. Mid-1993 hard currency reserves of $5.3 billion and over $5 billion in foreign investment enable Hungary to service its external debt. Of greater concern is the domestic debt. State spending has been held in check, but unexpectedly sharp drops in GDP and a tax administration unable to capture revenues from a rising private sector have continued to depress tax revenues. The 1991 deficit target of forint 79 billion ended up at forint 114 billion, and 1992's goal of forint 70 billion came in at forint 197 billion. In July 1993, Parliament passed a supplementary budget raising 1993's projected deficit from forint 185 billion to forint 215 billion (6.8 percent of GDP). As part of the conditions for reaching agreement with the IMF for a new Standby Arrangement, the deficit in 1994 will need to be cut to 5.5 percent. The budget problem will persist without better tax collection and a restructuring of generous social benefits, the latter difficult in an election year.

5. Significant Barriers to U.S. Exports

Import licensing: Imports have been greatly liberalized to spur domestic competition and let profitable firms obtain materials to restructure or produce exports. Over 93 percent of imported goods need 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 the foreign partner to the firm's incorporation capital. Hungary has a $750 million global quota on consumer goods in 1993, and may set quota ceilings for other individual product groups, importers and countries (there are semi-annual quotas for automobile imports). In 1991 and 1992 the quotas were filled, restricting some firms' access to the Hungarian market. Hungary's Association Agreement with the EC entitles the EC to an increasing share of the quota; in 1993, it received half of the allotments in a majority of the quota categories. An import license may be denied on grounds of national security, to comply with international obligations or to ensure the supply of basic necessities. General licenses are no longer issued, and all 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 conform to international norms and are set 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; specific rules apply to 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) and have Ministry of Health approval for merchandising. Veterinary drugs must also be registered and may only be imported by designated importers. Imports of animals and animal products require veterinary permission from the Ministry of Agriculture. As of October 1, 1993, a "quality" certificate from KERMI is required for imported consumer goods, reportedly to stem the entry of "low quality" and counterfeit goods; nearly one-fourth of all goods sold at retail will be affected by this rule.

Investment barriers: Because of the importance of foreign capital in Hungary's restructuring plans, neither investments nor services face major restrictions. Poor telecommunications and transport infrastructure and an undeveloped banking system are the main barriers to U.S. investment. Major tax incentives are available to foreign investors but these are scheduled to expire at the end of 1993. In 1992, the government announced a campaign to encourage more "green-field" operations, in part by strengthening its Investment Promotion Fund, which 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. Service firms may operate 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, as may foreign individuals with Ministry of Finance permission. Property can be mortgaged, leased, sold, or developed, subject to 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: Customs laws themselves pose no significant barriers, but local U.S. firms have complained of inadequate customs facilities and customs officials' ignorance of regulations. Another barrier to U.S. exports is Hungarian firms' hesitancy to disrupt their strong ties with West European suppliers.

Government procurement practices: The government discourages countertrade, but lets individual firms 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 has no local content requirements. In 1992, Parliament mandated 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 number of Hungarian companies were being sold to foreign investors. Hungary has signed, and incorporated into its legal system, the GATT Antidumping Code; to date, it has not taken antidumping actions.

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. The value added tax 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 the World Intellectual Property Organization and a signatory of important agreements such as the Paris Convention for the Protection of Industrial Property, the Nice Agreement on the Classification and Registration of Trademarks, the Madrid Agreement Concerning the Registration and Classification of Trademarks, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Bern Convention for the Protection of Literary and Artistic Works. A 1992 law protects the topography (layout design) of semiconductor chips.

U.S. industry has long complained that Hungary offers inadequate IPR protection; specifically, it provides patent protection for processes but not products. Compulsory

licensing and inadequate protection against video and tape piracy have also been problems. On August 2, 1993 the U.S. Trade Representative announced Hungary's removal from the Special 301 "Priority Watch List" after it concluded a comprehensive IPR agreement with U.S. negotiators. The United States is negotiating a Business and Economic Treaty with Hungary to provide further safeguards for U.S. investment.

8. Worker Rights

a. *The Right of Association.*—Legislation passed in 1992 recognizes the right of unions to organize and bargain collectively and permits 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. A 1992 law allows public sector workers to negotiate working conditions, but the final decision on increasing salaries rests with Parliament.

b. *The Right to Organize and Bargain Collectively.*—The right to bargain collectively exists in law, although minimum wage levels are centrally negotiated in a tripartite interest reconciliation council (IRC) to control inflation. The 1992 labor code permits collective bargaining at the enterprise and industry level. Trade union views are expressed in the IRC. July 1993 legislation prohibits employers from discriminating against unions and their organizers. 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 set by the IRC and implemented by Ministry of Labor decree. To maintain a decent standard of living in the face of falling real wages, many Hungarians supplement their income with second jobs. The 1992 labor code specifies various conditions of employment including termination procedures, severance pay, maternity leave, trade union consultation rights in some management decisions, annual and sick leave entitlements, and labor conflict resolution procedures. 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. *Rights in Sectors With U.S. Investment.*—Labor conditions in sectors with U.S. investment do not differ significantly from those in Hungarian firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		182
Food & Kindred Products	5	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	8	
Other Manufacturing	(1)	
Wholesale Trade		52
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		336

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

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

IRELAND

Key Economic Indicators

[Millions of Irish pounds unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP[2]	25,072	26,313	27,880
Real GDP Growth Rate (pct)	1.5	4.9	2.6
GDP at Current Prices[2] by Sector:			
Agriculture, Forestry and Fishing	2,313	2,512	N/A
Industry	9,266	9,876	N/A
Distribution, Transport and Communication	4,836	4,457	N/A
Public Administration and Defense	1,477	1,593	N/A
Other Domestic	8,425	9,064	N/A
Adjustment for Financial Services	−1,145	−1,189	N/A
GDP at Factor Cost	25,072	26,313	N/A
Plus Taxes on Expenditure	4,514	4,784	N/A
Less Subsidies	−1,821	−1,650	N/A
GDP at Market Prices	27,765	29,448	31,038
Exports of Goods and Services	16,893	18,673	20,304
Real Per Capita GDP	7,163	7,518	7,966
Labor Force (000's)[2]	1,338	1,356	1,377
Unemployment Rate (Standardized rate)	15.0	16.0	17.0
Money and Prices:			
Money Supply (M1) Year-End	3,196	3,228	[3] 3,382
Associated Banks' Prime Lending Rate	11.25	19.00	[4] 7.35–7.5
Commercial Interest Rates (Over 1 Year-Up to 3 Years)	12.5–.75	15–15.5	[5] 9.5–11.5
Savings Interest Rate (Investment Share Accounts)	5.0–7.25	6.5–10.75	[5] 0.75–4.0
Investment Rate:			
1-Year to Maturity	10.36	13.13	[5] 5.87
8-Year to Maturity	9.12	10.40	[5] 7.23
Consumer Price Index (Base Mid-Nov. '89 as 100)	105.0	108.2	[6] 110.2
Retail Sales Index (Base 1980 As 100)	197.0	206.8	[7] 210.0
Wholesale Price Index (Base 1985 As 100)	106.4	107.3	N/A
Exchange Rate ($ per IP) (3d quarter)	1.61	1.71	1.41
Exchange Rate (ECU per IP)	1.30	1.31	[8] 1.23
Balance of Payments and Trade:			
Total Exports (FOB)[9]	14,675	16,384	17,887
Exports to U.S.[10]	1,309	1,368	N/A
Total Imports (CIF)[9]	12,688	13,022	14,241
Imports from U.S.[10]	1,925	1,869	N/A
International Fund for Ireland (IFI):			
Aid from U.S (000's)	13,534	9,171	14,184
Aid from other Countries:			
Canada (000's)	321	0	N/A
New Zealand (000's)	0	95	N/A
European Community (000's)	11,408	10,675	16,189
FEOGRA (Agriculture) Intervention/Export Refunds.	1,334	1,114	1,114
Grants to Farmers, Headage Schemes, Drainage, Etc	143	144	129
European Social Fund	371	277	299
European Region. Devel. Fund	342	445	474
Gross Public Sector Foreign Debt (External Gov. Debt)	8,848	9,128	[11] 8,721

Key Economic Indicators—Continued

[Millions of Irish pounds unless otherwise noted]

	1991	1992	1993[1]
Debt Service Cost	2,336	2,319	N/A
Gold and FOREX Reserves	3,256	2,113	[11]4,256
Trade Balance	+2,167	+3,434	+3,646
Balance with U.S	−616	−501	N/A

N/A—Not available.
[1] Estimated.
[2] GDP at factor cost.
[3] Annual average.
[4] (Aug.).
[5] (July).
[6] (Mid-Aug).
[7] (2nd Qtr).
[8] (3d Qtr).
[9] Merchandise trade.
[10] Due to the abolition of customs procedures within the EU in January 1993 and the introduction of the INTRASTAT reporting system throughout the EU, monthly trade statistics for 1993 will not be available until later in the year.
[11] (June).

Sources: Central Bank of Ireland (CBI); Central Statistics Office (CSO); Economic and Social Research Institute (ESRI); Irish Trade Board (ITB), Department of Enterprise and Employment (DEE).

1. General Policy Framework

Ireland has a small open economy which is very dependent on international trade. Exports of goods and services in 1992 were equivalent to 71 percent of GNP, while imports were equivalent to 60 percent of GNP. Government policies are generally formulated to facilitate trade and inward direct investment. Ireland has a market economy, which is based primarily on private ownership. Government ownership and control of companies generally occur 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. The government's domestic policy is heavily influenced by the chronic high unemployment (16.7 percent seasonally adjusted in August 1993). 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 likely continue to emigrate in significant numbers.

Fiscal Policy: In 1992, Ireland's government debt was approximately IP 27.0 billion, of which about IP 10.9 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 high 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, successive governments have made considerable progress during the past six 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 government fiscal austerity programs since 1987. A major element of the government's success in fostering economic growth was the continuation of the national economic program, which succeeded the previous three-year program. The three-year national economic pact, known as the Program for Economic and Social Progress (PESP) was negotiated in early 1991. It contained similar provisions to the previous program for moderate wage increases and improvements in government finances. The present national economic program expires at the end of 1993. Government budget deficits fell dramatically while exports, investment and consumer spending showed strong growth. However, there has been a disappointing increase in unemployment, by some 58,000 over the last three years, despite a reduction of 20,000 in the years 1988 to 1990. Projections for 1993 indicate that government borrowing will be about 2.9 percent of GNP.

Irish tax policies have a major effect on personal consumption and demand for imported goods. Personal income tax rates are high in Ireland. Over the last few years, in conjunction with the massive reduction in public borrowing which was achieved, the government made substantial progress in relation to income tax and has reduced the standard and higher rates by six points respectively. Income tax rates did

not change in the 1993 budget and remain at 27 and 48 percent. Sixty-two percent of Irish tax payers are in the 27 percent standard rate bracket. A one percent income levy was introduced in the 1993 budget (supposedly as a temporary measure) to fund employment and social services programs. Irish value-added tax (VAT) rates are among the highest in the European Union (EU) and were streamlined in the 1993 budget. The standard corporate income tax rate in Ireland is 40 percent. Manufacturing firms and many exporting firms pay only 10 percent on corporate income under special arrangements designed to boost industrial development.

Monetary Policy: Ireland's monetary policies are aimed primarily at maintaining exchange rate stability within the European Monetary System (EMS), which Ireland joined in 1979. Interest rates are the predominate tool used by the Central Bank to affect monetary variables.

2. Exchange Rate Policies

Until 1979, the Irish pound was pegged to the pound sterling. In March 1979, Ireland joined the Exchange Rate Mechanism (ERM) of the EMS and broke its link to the British currency. It has, however, endeavored to maintain a stable competitive exchange rate against sterling due to the large amount of trade carried on between Ireland and the U.K. Following changes to the ERM in August, 1993, membership in the ERM now involves a commitment to maintain the Irish currency within a band plus or minus 15 percent of its central parity rate in the ERM. The Irish pound has been adjusted downward three times since Ireland joined the EMS, January 1993 being the most recent. Adjustments were 3.5 percent in 1983, 8 percent in 1986 and 10 percent in 1993. As part of the Common Agricultural Policy (CAP) of the EU, Ireland has maintained multiple exchange rates (known as green currency exchange rates) on agricultural goods subject to the CAP. Devaluation of these rates usually mirror those of the Irish currency.

In accordance with Ireland's EU obligations the removal of all remaining existing exchange controls took place in December, 1992, bringing to an end the Irish Exchange Controls Act of 1954–1990. New legislation was introduced in order to ensure, among other things, that the government can continue to impose financial sanctions (i.e. on Iraq and former Yugoslavia) under its international obligations.

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 anticompetitive behavior to be pursued in the courts. As a result, the government has revoked price controls on petroleum products and all other restrictive practice orders. Controls on below cost selling of grocery and food items do exist.

Tax Policies: The Irish tax system for corporations favors manufacturing and exporting companies. Those companies pay a business income tax of only 10 percent, compared to the normal rate of 40 percent. This gap encourages the development of export and manufacturing industries, and discourages growth in other industries. The 10 percent corporate tax rate has been extended by the government to the year 2010. Personal income tax rates are relatively high, encouraging tax avoidance by people at all income levels, which has led to the creation of a "black economy" estimated at between IP two to three billion. To address the problem, the government introduced a "tax amnesty" bill in June 1993 to provide those who failed to meet their tax obligations in the past with a final opportunity to regularize their affairs.

The standard rate of tax, 27 percent, is assessed on single workers earning more than IP 3,600 ($5,076) and on married workers earning more than IP 7,200 ($10,152). The top rate for personal income tax is 48 percent and applies to single workers earning more than IP 11,275 ($15,897) and married workers earning more than IP 22,550 ($31,795). Many pay an additional 8.75 percent of their earnings for a variety of social security programs, including a one percent income levy which was introduced in the 1993 budget (supposedly as a temporary measure) to fund employment and social services programs. Value added tax (VAT) rates are among the highest in the European Union (EU) and were streamlined in the 1993 budget. Most goods and services will now be taxed at either a 12.5 or 21 percent rate. A zero or 2.5 percent rate, however, will apply to certain items. VAT rates and many excise taxes are the subject of harmonization in the EU. The completion of the Single Market has eased the movement of products between EU member states and has, since

January 1, 1993, eliminated many customs controls in Ireland for items of EU origin.

Regulatory Policies: Government investment incentives are weighted toward high technology, export-oriented companies. Capital grants by the Irish Industrial Development Authority (IDA) reportedly have tended to favor capital intensive investments over labor intensive ones.

4. Debt Management Policies

Ireland's total exchequer debt amounted to about IP 27.0 billion, or about 103 percent of estimated 1992 GNP. While the debt has continued to grow in nominal terms, it has fallen as a percentage of GNP since 1987, when it was 117 percent of GNP. The foreign portion of the debt is IP 10.9 billion. As of June 1993, 12.6 percent of Ireland's foreign debt was denominated in dollars, 36.0 percent was in German marks, 22.0 percent was in Swiss francs, 10.3 percent in Japanese yen, 5.5 percent in European currency units (ECU), and lesser amounts in Dutch guilders, British sterling, Belgian francs, and Austrian schillings. Debt service costs in 1992 were IP 2.3 billion ($3.9 billion), about 12.2 percent of estimated Irish exports of goods and services and about 8.7 percent of GNP. In 1991 the government created an independent agency to manage the debt, the National Treasury Management Agency (NTMA).

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 becoming deregulated. Full deregulation in insurance will not occur until 1998. However, an immediate opportunity for U.S. companies exists in the Dublin International Financial Services Center (IFSC). This center offers U.S. companies the opportunity to establish an EU financial base. The IFSC is attracting international financial services such as asset financing, captive insurance, fund and investment management, and corporate treasury measurement. Qualified financial services companies have a maximum tax of 10 percent through the year 2005. There are approximately 240 projects approved. The United States has the second largest representation with approximately 45 projects.

Exchange controls on foreign travel by Irish citizens have been eliminated. Although they have been liberalized in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These, together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural products.

The EU 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. Separately, the Council of Europe agreed to a convention on transfrontier broadcasting which is largely the same as the EU directive. The main components of the directive are (a) general provisions which require member states to ensure freedom of reception of broadcasts from other member states; (b) provisions for the promotion of distribution and production of television programs; (c) provisions for advertising, sponsorship, the protection of minors, and right of reply. Many of the provisions of the directive have been transposed into law under the broadcasting Act, 1990. In short, cable and multichannel microwave distribution system (MMDS) operators will no longer require approval in advance of relaying a service. In 1991, Ireland implemented EU regulations which require broadcasters to reserve a majority of broadcasting time for European works and to reserve at least 10 percent of transmission time or budget for independently produced European programs.

6. Export Subsidies Policies

Export sales relief (ESR) was discontinued in April 1990 in line with Ireland's EU obligations. 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 paid income tax of only 10 percent on dividends received from the company, rather than the normal tax rate (27–48 percent). This program will expire at the end of 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 Port. Ringaskiddy is Ireland's major deep water port located in the Cork harbor complex. The Shannon Duty Free processing zone benefits from the reduced rate of corporation tax of 10 percent, while Ringaskiddy does not. No duties are levied at Shannon Free Zone on goods destined for non-EU countries.

The Irish Trade Board (Bord Trachtala) provides a single, integrated range of marketing support services for companies selling in Ireland and developing export sales. 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 EU, the Irish Department of Agriculture and Food administers CAP export refund and exchange rate programs on behalf of the EU 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, 1992, Ireland ratified the European Patent Convention and the Patent Cooperation Treaty. The Convention and the Treaty entered into force, as did the 1992 Patents Act, on August 1, 1992. The Act updates national law in a number of important respects and the substantive law is 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 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 in the EU. In that context, the government may consider strengthened penalties for copyright infringement.

8. Worker Rights

a. *The 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. A code of practice, drawn up by the Labor Relations Commission, was introduced by the government in June, 1993 It lays down guidelines of duties and responsibilities of employee representatives and the protection and facilities to be granted to them by employers.

About 48 percent of all private sector workers and 52 percent of all public sector workers are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors.

The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 70 member unions with 678,827 members. Mergers have steadily reduced the number of unions affiliated to the ICTU in recent years, but union membership numbers are up by 20,000 since 1987. 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. *The Right to Organize and Bargain Collectively.*—Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. Most terms and conditions of employment in Ireland are determined through collective bargaining, which took place in 1991 in the context of a national economic pact (Program for Economic and Social Progress or PESP) negotiated by representatives of Irish unions, employers, farmers and the government. The PESP included an agreement between the Irish Congress of Trade Unions and the Irish Business and Employers Confederation (IBEC) establishing standard pay increases for the three year period of the PESP. The agreement pro-

vided for increases of three percent in 1992 and 3.75 percent in 1993. The present PESP agreement expires in December 1993. Talks have taken place between government and the ICTU and between government and the IBEC on the possibility of a new 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.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law and does not exist in Ireland. However, portions of the 1894 Merchant Shipping Act are considered by the International Labor Organization (ILO) to be inconsistent with the prohibition on forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—The minimum age for employment of children is 15 years. Children over 14 years are permitted to carry out light, non-industrial work during school holidays with the written permission of the parents. Irish laws limit the working hours in any week for young persons aged between 15 and 16 years to eight hours per day up to a maximum of 40 hours in any week. The normal working hours are 37.5 hours a week. Young persons aged between 16 and 18 years may work a normal day of eight hours and a maximum of nine hours in any day. The normal work week is 40 hours, with a maximum of 45 hours. These provisions are effectively enforced by the Minister for Enterprise and Employment.

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. A recent government submission to an EC Commission white paper on "Growth, Competitiveness and Employment" suggested that a minimum wage policy could hinder job creation and recommended that the EU assess the potential effects on employment, of any such proposal to regulate the labor market. In 1992 the average weekly wage was $406 (in 1992 IP 1.00 was equiv..lent to $1.71) for production and transport workers. Working hours in the industrial sector are limited to nine hours per day and 48 hours per week. Overtime is limited to two 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 Department of Enterprise and Employment 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		119
Total Manufacturing		4,505
Food & Kindred Products	(1)	
Chemicals and Allied Products	1,699	
Metals, Primary & Fabricated	188	
Machinery, except Electrical	163	
Electric & Electronic Equipment	858	
Transportation Equipment	(1)	
Other Manufacturing	1,258	
Wholesale Trade		117
Banking		9
Finance and Insurance		1,947
Services		(1)
Other Industries		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	7,229

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

ITALY

Key Economic Indicators

[Billions of Italian lire unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1985 prices)	953,181	963,037	961,817
Real GDP Growth (pct.)	1.3	0.9	0.0
GDP (at current prices) (trillion lire)	1,427	1,507	1,558
By Sector (billion lire):			
Agriculture	52,780	51,699	N/A
Industry	413,542	424,173	N/A
of which Energy	33,494	35,992	N/A
of which Construction	83,601	87,915	N/A
Services	699,880	764,884	N/A
Non-market Services	198,068	209,018	N/A
of which Government	168,868	183,481	N/A
Net Exports of Goods and Services	−21,439	−26,555	−13,717
Real GDP per capita (000's) (1985 prices)	16,492	16,656	16,656
Labor Force (000's)	24,244	24,189	23,694
Unemployment Rate (pct.)	10.9	11.5	13.4
Money and Prices:			
Money Supply (M2)	820,521	857,342	[2] 890,565
(annual percentage growth)	9.1	4.5	[2] 8.8
Base Interest Rates	13.9	15.8	[2] 12.8
Personal Savings Rate	19.1	17.8	N/A
Retail Inflation (COL)	6.4	5.4	[3] 4.3
Wholesale Inflation (PPI)	3.3	1.9	[4] 4.4
Exchange Rate (lire/$—average)	1,241	1,233	[3] 1,550
Trade and Balance of Payments:			
Total Exports (FOB)	209,747	219,427	[5] 168,910
Exports to U.S	14,445	15,281	[5] 12,738
Total Imports (CIF)	225,770	232,108	[5] 150,003
Imports from U.S	12,618	12,141	[5] 8,429
External Public Debt (billions of lire, year end)	54,800	64,700	[5] 74,500
Debt Service Payments	5,000	6,200	[5] 3,400
Gold and FOREX Reserves (end-period)	70,517	66,517	[2] 73,457
Trade Balance	−16,023	−12,681	[5] 18,908
Balance with U.S	1,827	3,140	[5] 4,309

N/A—Not available.

[1] 1993 data are estimates by Italian Government or embassy except where data are followed by a month indicating actual data through that period.
[2] As of September, 1993.
[3] As of October, 1993.
[4] As of August, 1993.
[5] Jan.–August, 1993.

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 Union (EU), Italy maintains a relatively open economy.

The state plays an 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 40 percent of economic activity. The government announced a comprehensive privatization program in late 1992, but few companies have been sold to date, as the preparations have been slower than the government expected. Nonetheless, the Italian private sector is large and dynamic. 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. This divergence of wealth is also reflected in higher unemployment in the south, which forms one of Italy's major economic and social problems.

Italy's large public sector deficit and growing public debt constitute its most pressing economic problems. The stock of debt exceeds the value of the gross domestic product (GDP). It is currently estimated to be 119 percent of GDP. The budget deficit was 10.8 percent of GDP in 1992 and is expected to be about 10 percent in 1993. In 1992–93, the government implemented a serious deficit reduction policy designed to alter the underlying trend deficit. The government cut the 1993 deficit by about 106 trillion lire (roughly $70 billion) through two budget packages and a combination of increased tax receipts (some were one-time, extraordinary tax measures) and spending cuts in such areas as pensions, health care, public sector salaries, and local finances.

The government hopes to reduce the 1994 deficit to 8.7 percent of GDP. The 1994 budget reduction package is estimated at 2.3 percent of GDP. The bulk of the deficit reduction (1.7 percent of GDP) is to be achieved through cuts in spending on health, social security, education, and public works. An additional 0.2 percent of GDP is to come from increases in VAT rates and other indirect taxes. The Italian Government projects a further 0.4/0.5 percent of GDP in savings on interest payments on the public debt due to reductions in interest rates. Interest payments are expected to fall from over 11 percent of GDP in 1992 and 1993 to 10.5/10.6 percent of GDP in 1994.

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 increase in both M–2 (currency plus all bank deposits) and credit to the non-state sector to the expected level of increase of nominal GDP growth.

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. The discount rate has been reduced from 15 percent in September 1992 to eight percent in October 1993.

2. Exchange Rate Policy

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 EU'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 severe 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 took this step because it no longer had sufficient foreign exchange reserves or the credibility to maintain the parity of the lira with respect to other EU currencies within the ERM and the intervention of other EU member states' central banks was becoming too expensive.

Even though the lira is out of the ERM, the Bank of Italy continues to monitor exchange rates and wants the lira to stabilize against other EU currencies, and es-

pecially the deutschemark, in order to avoid tensions with other EU countries (such as France) regarding the question of competitive devaluations. The Bank of Italy is rebuilding reserves and generally does not intervene in the markets to defend the lira.

The Bank of Italy has been lowering interest rates cautiously, keeping an eye on German interest rates and the lira/German mark exchange rate. Italian rates rose rapidly in the summer of 1992 in defense of the lira. The discount rate went from 12 percent in June 1992 to 15 percent in September 1992. Then the rate came down to a more "normal", or "pre-crisis" level by December, 12 percent. The discount rate was eight percent in October 1993.)

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. On the positive side, two labor cost agreements have reduced the cost of labor to less than annual increases in inflation, which has resulted in increased Italian competitiveness in international markets. 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, few listings and a meager volume of transactions. This has discouraged many businesses from using it for 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 stock brokerage 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 EU 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. Legislation to reform the banking system, which takes effect on January 1, 1994, 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 for agricultural products, taxes and customs duties do not present serious obstacles to U.S. exports, other than the usual level of bureaucratic red tape which marks all transactions in Italy. While Italy remains relatively open to foreign investment, direct foreign investment can become a political issue. The 1990 anti-trust law gives the government the authority to block mergers over a certain size involving foreign companies under certain conditions. Thus far, however, the anti-trust authority has not acted against foreign investment, concentrating instead on promoting increased competition in Italian markets. There are no impediments to foreign investment participation in the privatization process.

Italian structural 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. As a founding member of the EU, Italy wants to move forward with the first group of countries in economic and monetary union. Nonetheless, due to the continuing recession and to the high costs of the convergence measures, there is strong political opposition to the economic policies necessary for Italy to achieve economic convergence with other members of the EU.

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 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. While Italy's foreign assets are substantial, it had a net negative investment position of $138.3 billion at the end of 1992. Italy's banking system had claims on the so-called debtor countries amounting to $6.9 billion at end-June 1993. Italy's banking system is considerably less exposed to the debtor countries than those in other G–7 countries.

U.S. and other foreign banks have complained about the handling of the liquidation of EFIM, a large state holding company. Over a year after the liquidation was announced in July 1992, foreign banks and creditors still have not been paid.

5. Significant Barriers to U.S. Exports

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 EU, are only in Italian, and bids must be in Italian. Although not officially stated, there is 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 American business sources, that on large automation contracts awarded 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.

Recent scandals involving public works projects throughout Italy have drawn attention to the corruption and kickbacks that have occurred between contractors/vendors, public officials and politicians. As a result, there has been a media and general public outcry for a more transparent bid and tender process. As of October 1993, the Parliament is considering legislation which, if implemented, may make government procurement more transparent, enabling foreign contractors to hope for greater opportunity in this area.

U.S. agricultural exports to Italy compete with products covered under the EU's Common Agricultural Policy (CAP). For this reason, U.S. products continue to be subject to quantitative restrictions such as seasonal limitations enforced through licenses. Agricultural imports also face sanitary and phytosanitary barriers that result in the exclusion or restriction of certain U.S. products including beef, some seeds for planting, and citrus fruit (other than grapefruit). Finally, qualitative restrictions also hamper U.S. bull semen imports into Italy.

Telecommunications services are still tightly regulated by the state, which maintains a monopoly on voice telephony and the telecommunications 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 Italy implements EU directives on telecommunications services. Multi-user networks are officially outlawed, but are sometimes tolerated where need is demonstrated. Mobile phone services are at present the monopoly of the state-owned telephone utility, SIP. As of October 1993, the granting of a second operating license had been scheduled for April 1994, although the process for awarding a license had not been set.

The Parliament in August 1990 passed a law which requires beginning in 1994 that a majority of TV broadcast time for feature films be reserved for EU-origin films, in keeping with the 1989 EU Broadcast Directive. Another bill approved by the lower chamber, and now awaiting action in the Senate, proposes progressive tax rebates, ranging from 25 to 50 percent of the box-office tax, for theater owners that show Italian films at least 25 percent of the time. A 1965 law already mandates a 25 day-per-quarter screen quota, but is 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 EU standards in this area. In sectors such as pollution control, the uniformity in application of standards may vary according to region, thus complicating certification requirements for U.S. business.

Some professional categories (e.g. engineers, architects, lawyers, and accountants) face restrictions that limit their ability to practice in Italy without either possessing Italian nationality or having received an Italian university degree.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Since 1990, the United States/Italy civil aviation relationship has undergone some liberalization, including the entry of new U.S. carriers in 1991 and 1992. However, U.S. carriers have expressed concern over a range of doing-business issues, a number of which relate to the services monopolies at international airports.

While official Italian policy is to encourage foreign investment, 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, and the state monopolies (e.g., railways, tobacco manufacturing and electrical power).

Until 1992, meaningful privatization of Italian government parastatals was thought to be unlikely to take place. 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. As of October, 1993, however, very few companies had been sold. A large bank was scheduled for privatization in December 1993. Privatization of other subsidiaries, including banks, industrial and energy companies, the state insurance company, and telecommunications companies, is still in the planning stage. Italian interests may well have the inside track in acquiring the more attractive subsidiaries and the government may retain some control over the board of directors.

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 to a lengthy and cumbersome authorization process. This favors the small traditional shops.

Italy provides a number of investment incentives consisting of tax breaks, subsidies 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 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 EU directives and Organization for Economic Cooperation and Development (OECD) agreements on export subsidies. Through the EU, it is a signatory of the GATT Subsidies Code. Italy also provides its farmers extensive export refunds under the Common Agricultural Policy (CAP), which as of October 1993 are being scrutinized under CAP reform and the GATT negotiations. 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 assisting 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. With respect to export-promoting subsidies, U.S. industries have recently expressed particular concern over Italian Government subsidies to the steel and shipbuilding industries.

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.

Italy since 1989 has been on the intellectual property rights "watch list" under the Special 301 provision of the 1988 trade law, reflecting widespread problems with protection of copyrights for computer software and film videos. Over the past year,

Italian authorities have shown a much greater sensitivity to the need for action in these areas, and considerable progress has been made. Enactment in December 1992 of the EU software directive making software copyright violations a criminal offense was a major step forward. Simultaneously, the Italian Government has substantially increased enforcement actions against both video and software pirates. A May 1993 decree by Prime Minister Ciampi established a permanent anti-piracy committee to coordinate and mobilize government activity in this area. Other related activity has included a series of specialized training courses organized by the Ministry of Interior for Italy's three law enforcement agencies, and a two-day symposium to sensitize judges throughout Italy to the need for stricter application of the law.

Application of the new software law appears to be making a significant dent in the longstanding software piracy problem. Prior to enactment of the law, U.S. industry estimated a piracy rate of as high as 80 percent, with consequent losses to U.S. companies in the neighborhood of $300 million. A major problem has been widespread duplication of software internally by Italian companies. Following stepped-up enforcement measures early this year, U.S. industry representatives reported that U.S. personal computer software sales in the second quarter of 1993 (the most recent data available) soared by 160 percent versus previous year figures, as the piracy rate declined and Italian companies moved to legalize software holdings.

Film video piracy is also a major problem. U.S. motion picture distributors estimate that some 40 percent of the video market consists of pirated material, with losses to U.S. firms in the range of $ 240 million. According to these sources, the television piracy rate is about eight percent and unauthorized film screenings account for 15–20 percent of all showings. Light sentences handed down by Italian courts for these offenses have been a major problem. U.S. industry has actively engaged Italian authorities on this issue, and has noted a significant increase in raids and confiscations of illegal cassettes and equipment. A recent court decision extending copyright protection from 50 to 62 years for pre-war films should address a longstanding issue about protection for older classics. Another recent ruling provides support for sequestration of plant and materials used for piracy.

8. Worker Rights

a. *The Right of Association.*—The Workers' Statute of 1970 provides for the right to establish a trade union, to join a union and to carry out union activities in the workplace. Trade unions are not government controlled, and the Constitution fully protects their right to strike, which is frequently exercised. In practice, the three major labor confederations have strong ideological ties to the three major political parties and administer certain social welfare services for the Government, which compensates them accordingly. Moreover, the Workers' Statute favors the three confederations to the extent that it is difficult for small unions, including the so-called "base committees" (COBAS), to obtain recognition. In 1990, however, one of the "base committees", the Locomotive Engineers (COMU), finally was recognized and seated at the bargaining table. A new tripartite (labor/management/government) national agreement signed on July 23, 1993 includes a new structure for plant representation bodies (RSU) to replace the now defunct works councils. Once implemented, this may provide more recognition to small unions through election of their representatives to the RSUs.

The number of hours lost due to strikes in 1992 decreased by seven percent compared to 1991 (19,510 down from 20,895 the year before) as workers tried to preserve job security in the last quarter of 1992. Strikes in 1993 have exceeded 1991 and 1992 levels for the first six months and are expected to surpass annual levels as well. Italian unions engage freely and actively in international trade union organizations.

b. *The Right to Organize and Bargain Collectively.*—The right of workers to organize and bargain collectively is protected by the Constitution and is freely practiced throughout the country. Labor-management relations are governed by legislation, custom, collective bargaining agreements, and labor contracts. A key element of labor-management-government cooperation affecting the industrial relations climate was the 1946 agreement on indexing wages (scala mobile) to the cost of living every three months. This agreement was nullified in December 1991 by a tripartite agreement (labor/management/government). On July 31, 1992, another tripartite agreement permanently abolished the cost-of-living adjustment system. A new system was negotiated in July 1993. It provides for wage increases to be limited to programmed inflation in the first two years of four year contracts with a reopener clause after the second year to adjust wages in accordance with actual inflation. It also permits plant level bargaining to take place according to schedules established in national sectoral contracts.

National collective bargaining agreements in fact apply to all workers regardless of union membership. The July 23 accord calls for this to be guaranteed by law. Collective bargaining at the national level (involving the three confederations, the public and private employers' organizations and, where appropriate, the Government) occurs irregularly and deals with issues of universal concern. As a result of the July 1993 accord, sectoral negotiations, involving national-level industrial unions and employers' organizations, will now occur at four year intervals and cover all aspects of labor relations; they also apply to all workers, whether unionized or not. Voluntary, non-binding mediation is provided by the Ministry of Labor and is often effective in bringing labor and management together.

Italy enacted legislation in 1992 to bring it into compliance with the EU Directive on transfer of ownership. The law provides that the unions of both the former owner and the new owner's respective companies must be consulted in advance of the sale and that no worker's benefits will be lost as a result of the transfer of ownership. Unions have the right to bargain with the employers in case of restructuring processes and laid off workers are entitled to receive their wages from the earnings compensation fund (financed by employers and the state).

There are no areas of the country, such as export processing zones, where union organizations and collective bargaining are impeded or discouraged. The law prohibits anti-union discrimination by employers against union members and organizers. A 1990 law encourages workers in small enterprises (i.e., fewer than 16 employees) to join unions and requires "just cause" for dismissals from employment.

c. *Prohibition of Forced or 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 may, as an exception, authorize the employment on specific jobs of children under 15 years of age, for example in artistic presentations or film making, which are not dangerous or harmful to the child's morality and health and do not take place after midnight. The child must have at least 14 consecutive hours of rest between performances. The minimum age is 16 for youth employed in dangerous, fatiguing, and unsanitary work, and 18 for youth employed in a number of occupations including mines, tunnels without mechanical vehicles, and sulfur ovens in Sicily. No worker under 18 years may be employed in driving and pulling trucks and carriages, or in jobs involving explosives. Minimum age and compulsory education laws (currently through age 14, but due to be raised to age 16) are effectively enforced.

In 1992 Italy annulled ILO Convention 89 which prohibits female night work and a new draft law is under review. At present, there is no new legislation under discussion. Law 903/1977 (on equal opportunities in employment) prevents discrimination on the ground of sex and regulates prohibition of female night work, defining as night work only that performed between midnight and six a.m. This law permits women to perform night work if labor and management have agreed. However, many small firms have no union representation.

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 six days per week and eight hours per day. The eight-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. A number of EU directives on safety and health are due to be implemented by December 1993. Enforcement of health and safety regulations is entrusted to labor inspectors, who are employees of local health units and have the same status as judicial police officers. Inspectors make periodic visits to companies to ensure observance of safety regulations. Violators may be fined or even imprisoned. Trade unions also play an important role in reporting safety violations to inspectors. In 1992 the number of work-related deaths in industry increased by more than 100 compared to 1991 (1,729 compared to 1,568 the year before). In agriculture there were 437 (10 more than in

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1991). Part of the problem is an inadequate number of inspectors. Due to high unemployment, there is also pressure on workers to accept unsafe conditions as a necessary evil if they need jobs. There are many substandard workplaces in Italy, especially in the south.

f. Rights in Sectors With U.S. Investment.—Conditions do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		416
Total Manufacturing		8,821
Food & Kindred Products	374	
Chemicals and Allied Products	2,655	
Metals, Primary & Fabricated	229	
Machinery, except Electrical	3,066	
Electric & Electronic Equipment	483	
Transportation Equipment	205	
Other Manufacturing	1,809	
Wholesale Trade		2,063
Banking		160
Finance and Insurance		1,589
Services		363
Other Industries		193
TOTAL ALL INDUSTRIES		13,605

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

KAZAKHSTAN

Key Economic Indicators

[Millions of rubles unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP Growth (pct.)[1]	−5.3	−13.2	−15.3
GDP (current prices)[1]	80,983	1,213,616	1,369,700
By Sector:			
Agriculture (incl. pvt.)	N/A	159,688	N/A
Communication and Transport	N/A	80,716	N/A
Manufacturing	N/A	771,568	N/A
Construction	N/A	75,539	N/A
Housing	N/A	14,899	N/A
Trade	N/A	23,431	N/A
Financial Services	N/A	9,032	N/A
Government, Health and Education	N/A	53,575	N/A
Other	N/A	25,177	N/A
Net export of Goods and Services (92/93 mil. US$)	1,620	1,399	1,099
Per Capita GNP (US$)[2]	2,470	1,690	N/A
Labor Force (000's)[1]	9,331	9,368	N/A
Unemployment Rate (percent)[1]	0.05	0.45	0.50
Industrial Output (pct. change)	−13.8	−12.1	N/A
Money and Prices (annual percentage growth unless noted):			
Money Supply (M2)[3]	210.7	552.9	[4]714.2
Base Interest Rate (pct.)	N/A	60	180

Key Economic Indicators—Continued

[Millions of rubles unless otherwise noted]

	1991	1992	1993
Personal Savings (MRS Jan–Jul 93)	N/A	N/A	69,023
CPI (1991=100)[3]	100	1,480	[5]9,851
Exchange Rate:[3]			
Official:			
Rubles per $	1.75	193.2	N/A
Tenge per $	N/A	N/A	5.7
Parallel: Tenge per $	N/A	N/A	7.5
Balance of Payments and Trade (million of U.S. dollars unless noted):			
Total non-FSU Exports (FOB)[3]	1,620	1,489	1,002
Exports to U.S.[1]	N/A	94	117.6
Total non-FSU Imports (CIF)[1 6]	N/A	469	254.1
Imports from U.S.[1 6]	N/A	6	13.3
Aid from U.S.[7]	N/A	N/A	42.4
Aid from other Countries (million Rubles)	N/A	1,824.0	N/A
External Debt (pct. of GDP)[3]	N/A	N/A	81.6
Gold and FOREX Reserves[1]	N/A	N/A	722.9
Total Trade Balance[3]	–3,160	–1,670	[4]–488
Non-FSU Trade Bal.	N/A	1,020	748.1
Balance with U.S.[1 4]	N/A	88	104.3

N/A—Not available.

[1] Source: Kazakhstan State Committee for Statistics (GOSKOMSTAT). 1993 figures are for 9 months, actual where available, otherwise GOSKOMSTAT estimates. GOSKOMSTAT continues to revise its methodology to incorporate international practice.

[2] IBRD estimates.

[3] IMF Economic Review and embassy estimates.

[4] National Bank of Kazakhstan. Report to Supreme Soviet 10/28/93.

[5] April 1993.

[6] GOSKOMSTAT official trade data considers ruble zone trade separately. Much of ruble zone trade is re-export. Some U.S. trade falls into this category, but no firm data is available. Total imports CIF in 1992 is about $800 million according to IMF estimates.

[7] U.S. Agency for International Development. Includes USAID expenditure for all years.

1. General Policy Framework

Kazakhstan continues to suffer a severe economic crisis, but is beginning to expand development of its great natural wealth, principally by means of foreign trade and investment. Kazakhstan is a multiethnic nation of 17 million people, vast territory, and enormously valuable resources, located in the center of Asia. With its economy still very much in transition, Kazakhstan is beginning to privatize part of its economy and is rapidly establishing relations with major economic powers and international companies. With political stability and economic reform, and with adequate access to markets via fair transit, Kazakhstan can become an important trade and economic partner.

The decline in GDP continued, falling 15 percent in the first nine months of the year, reflecting drops in agricultural and industrial production.

The potential of Kazakhstan is based mainly in three sectors, hydrocarbons, other minerals, and agriculture. Kazakhstan could become one of the world's major oil and gas exporters by early in the next century. Although current oil production, relatively stable at approximately 500,000 barrels per day, is only about half again as much as consumption, exploitation of oil reserves counted in the tens of billions of barrels could dramatically increase production and export, depending on the availability of export pipelines and transit rights. Kazakhstan is one of the richest mineral storehouses in the world. As with hydrocarbons, it has begun to open its mines to foreign technology and investment, but state ownership of mineral deposits is a drawback to attracting desperately needed foreign joint ventures. There are major deposits of coal, chromites, copper, bauxites, phosphorites, iron, rare earths, silver and gold.

Kazakhstan is the only grain exporter, principally of wheat, among the former Soviet republics. A record harvest in 1992 (32 million tons) provided as much as 10 million tons for export, but a smaller harvest in 1993 (25 million tons) severely reduced exports. Leaving aside weather variables, yields are not likely to improve

much without the privatization of agriculture, and elimination of the stifling "state orders" system. Extensive pasturage helps sustain a livestock industry.

Two years after its formal independence, Kazakhstan attained monetary independence in November 1993, when it issued its own currency, the tenge, following the collapse of the ruble zone. Through October, Kazakhstan attempted to remain in some kind of ruble zone, and signed a number of agreements with Russia which were never implemented. The initial issuance of the tenge, over November 15–22, was relatively smooth, although the tenge still has not been allowed to float freely.

The immediate period leading up to the issuance of the new currency was accompanied by severe economic dislocation, and near hyper-inflation. Prices rose some 35–50 percent per month in the latter part of the year. A near tripling of the money supply in the last months of the ruble zone was exacerbated by massive unofficial flows of "old rubles" into Kazakhstan. Along with imported hyper-inflation in the initial months of the year, these flows brought inflation over 1993 to approximately 2,000 percent. The movement of prices toward world levels reduced distortions. Prices in Almaty rose to among the highest in the former Soviet Union.

Wages and, especially, pensions did not keep pace, however, putting the bulk of the population in increasingly difficult straits. According to some estimates, minimum wage and social benefits fell to about one-fourth of 1991 levels; as much as 20 percent of the population could be in serious poverty. For these people, prices of most medicines were out of reach, quality of diet further deteriorated, and social services were severely curtailed.

As 1993 wore on, Kazakhstan increased the pace of economic reform and privatization, although implementation was slow. The Supreme Soviet adopted a good Constitution and a number of improved laws, but the legal environment for business remains mixed. Lack of legal certainty deterred some investors, but others moved forward on the basis of positive decisions by the government, sometimes backed by Presidential or Council of Ministers' Decrees. Officials acknowledged that many economic laws were transitional and would be further revised to reflect the move to a more privatized, market-oriented economy. In the absence of an adequate oil and gas law, some international oil agreements signed by the government included clauses affirming their validity, notwithstanding existing legislation.

A USAID/World Bank funded program of privatization began in July 1993. Under its terms, the State Property Committee (GKI) oversees the disposal of enterprises. Small-scale enterprises (less than 200 employees), including shops and transport are being sold at auction. "Mass Privatization" included the issuance of coupons to citizens, who would invest them in holding companies, which in turn would purchase shares of most medium-scale enterprises (200–5,000 employees). Large-scale enterprises would be privatized on a case-by-case basis. The Almaty Tobacco Factory is being sold to the Philip Morris Corporation in the largest privatization with foreign investment in the former Soviet Union. In general, government policy continued to feature majority state ownership of large or key enterprises. Some policy-makers have indicated that the government would over time reduce its stake. Private ownership of housing, already widespread, continues to broaden through a voucher scheme.

The still dominant state sector remained characterized by inefficiency, price distortion, and overstaffing. State-owned enterprises were forced, by reduction of subsidies and heavily subsidized credits (with inflation, these carry sharply negative real interest), to behave more like commercial entities. Some, as in the non-ferrous metals industry, did relatively well, mostly by exporting. Most enterprises, however, faced severe problems and some had to cease production. A special problem is getting paid for goods shipped, especially from customers in the other former Soviet republics. This particularly hurt manufacturing, dependent on inputs from other former republics. Governments have sought agreement on methods, including banking arrangements, to ameliorate the payments problem, but a satisfactory system had not been implemented by the end of 1993.

The nascent domestic private sector, based primarily in wholesale and retail trade, has flourished. It began to accumulate capital, which it appeared to invest as well as consume. Local entrepreneurs, particularly in trade and to a lesser extent in small-scale manufacturing, were often creative and energetic. Some prospered through links to government officials and bribery. Along with the economic crisis and ethnic anxieties, growing corruption is a severe problem facing the young nation.

The banking system has evolved considerably as Kazakhstani bankers began to gain experience in trade and foreign transactions and developed relations with foreign banks. Foreign and joint venture banks emerged. The domestic banking system as a whole remained undeveloped, and depended heavily on subsidized credits from the National (Central) Bank.

Kazakhstan firmly established its links with international business in 1993, when it signed major agreements with Chevron for oil production; with the largest-ever international oil consortium, including Mobil, for the preliminary exploration of the Caspian Shelf; and with Philip Morris. Each agreement is the largest of its kind in the former Soviet Union. Most of the other major international oil companies, and several oil independents, as well as leading firms in other industries pursued opportunities. Important trade prospects include infrastructure development, oil and gas and mining equipment and services, and passenger aircraft. From mid-1992 to the end of 1993, permanent U.S. business presence in Kazakhstan grew from a single office to more than fifty establishments, some of them small businesses.

One result is the fall in the share of Kazakhstan's trade with Russia and the other republics from over 90 percent to approximately 70 percent of total trade. China, which continued to upgrade its passenger and freight rail connection, has become a leading source of consumer goods. Other countries, including the United States, have increased their trade with Kazakhstan.

Structure of economic policy making: Economic policy-making is complicated and changing. Authority flows from the President through the Prime Minister to the Council of Ministries. Macroeconomic policy is under a First Deputy Prime Minister. Separate Deputy Prime Ministers, at least nominally, oversee foreign trade, industry, and agriculture. In reality, most ministries are increasingly autonomous, as central budget contributions to them have declined sharply in real terms. Principal economic ministries include the Ministry of Economy, which oversees planning and foreign debt; the Ministry of Finance, which has primarily budgetary and tax responsibilities; and the Ministry for Foreign Economic Relations, which controls export licenses. Both the Ministry of Energy and the Ministry of Geology are involved in oil and gas agreements. The National Bank issues money and credit. There is also a National Agency for Foreign Investment within the Ministry of the Economy.

In practice, much policy is determined by individuals, or by temporary groupings. The issuance of the national currency was carried out under a committee headed by the Prime Minister, with guidance from President Nazarbayev. Most economic policy was designed by a small group of economic reformers, which has the support of the President on most issues.

Fiscal policy: The Kazakhstan government has distinguished itself by its fiscal restraint. The 1993 deficit is estimated at approximately six percent of GDP, less than in 1992, and within IMF Systematic Transformation Facility targets. Military spending remained low, with many defense activities in Kazakhstan financed by Russia for its own purposes. The move toward market prices has increased the budgetary impact of food and energy subsidies. For 1992, the IMF estimated that half the deficit was financed by domestic resources, principally credit emissions.

Monetary policy: The end of the ruble zone and the issuance of its own currency resulted in great variation of monetary policy during 1993. Limitations on the transfer of ruble balances in mid-1992 meant that Kazakhstan exercised some monetary authority throughout 1993. Inflation and the extensive issuance of credits to cover enterprise arrears contributed to a steady and significant increase in the non-cash money supply. The country was plagued by cash shortages throughout the first seven months of 1993.

Russia's move to a new ruble and the subsequent movement of huge amounts of old rubles into Kazakhstan saw the money supply grow from a trillion rubles in September to between 3.5 And 4.5 trillion in November. At the time it issued the tenge, Kazakhstan claimed reserves of approximately $720 million, some $230 million of which was in gold. With the issuance of the new currency, the government sharply restricted the money supply. Hundreds of billions of rubles were frozen in accounts for up to six months, while government commissions ruled on the legitimacy of their origin.

Kazakhstan is a member of the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (ADB). Kazakhstan reached agreement on a Systemic Transformation Facility with the IMF in July 1993 and drew its first tranche of $83.5 million. After meeting IMF targets, it planned to draw the second tranche at the end of 1993. In December, in Almaty, IMF managing director Camdessus reviewed a letter of intent for a Standby Agreement, which the government has submitted to the IMF. If approved by the IMF Board, Kazakhstan could receive an additional $167 million in 1994 (up to its full IMF quota).

The World Bank coordinates assistance efforts for Kazakhstan. The World Bank signed a rehabilitation loan for $180 million, and is negotiating additional credits. In consultation with the IBRD Kazakhstan is also seeking additional donor support. Kazakhstan is an observer of the GATT, and has been awarded favorable consideration treatment by COCOM.

2. Exchange Rate Policy

When it issued its own currency, Kazakhstan gained responsibility for managing its exchange rate. At the time it clamped down on what had evolved into a relatively free and floating unofficial foreign exchange market for the ruble. The government promised a floating rate for the tenge, but initially supported it at an implicit peg to the Russian ruble. The initial rate for the tenge was 4.7 to the dollar, which many observers viewed as unrealistic. By mid-December 1993, the official rate for the tenge was 5.7 to the dollar. The street price for the tenge rose to about 7.5–8 tenge to the dollar. IMF and U.S. officials have urged Kazakhstan to let the new currency float freely and Kazakhstani authorities have promised to do so. By the end of 1993, a growing number of money exchange points had opened, and the transition to a floating exchange system appeared to be in the works.

3. Structural Policies

Kazakhstan has freed most internal prices, but continued to subsidize housing, public transport, energy, and some food prices. The wasteful state order system is in decline, but still plays an important role, such as in agriculture. Freeing of prices has resulted in gasoline (retail) and wheat prices (to the farmer) at levels approaching world market prices. Subsidies continue, but at a reduced rate. Approximately 50 percent of the retail bread price is subsidized, but that price significantly increased in line with the higher prices for grain. The State Anti-Monopoly Committee has some authority to review prices.

Steep real price increases accompanied the issuance of the new currency. At the same time, however, the government issued a list of price controls for essential commodities. Many of these prices were at new, higher levels. Barter trade continues, but is shrinking with the increasing monetization of the economy.

Tax policies: Sound fiscal management has reduced pressure for revenue enhancement. Revenues are derived primarily from income taxes, a value-added tax, and export duties. Social spending accounted for the most significant portion of expenditures in 1992, followed by financing of the economy. Tax officials indicate that, rather than impose new taxes, they can enhance revenues by better enforcement. At the end of the year the government announced a series of tax increases and enforcement upgrades, but it is unclear how these will be implemented. In October 1993, Kazakhstan signed a treaty with the U.S. on the avoidance of double taxation. A branch of the private U.S.-based tax foundation opened in 1993 in Almaty.

Regulatory policies: Government regulation is extensive, conflicting, and suffocating. It is also a major source of corruption. Application of regulations is often uneven, as many can be negotiated, or are more honored in the breach than the observance. Firms often complain that it is difficult to export because licenses are required from three or more ministries in Almaty, and sometimes from local authorities as well. With the appearance of the tenge in November, the government intensified its effort to manage the economy.

4. Debt Management Policies

Kazakhstan accepted joint and several liability for all the debts of the former Soviet Union, and was assigned a proportionate share of 3.86 percent of total debt, equal to approximately $2.5 billion. While acknowledging its formal obligations, Kazakhstan negotiated the "zero option," with Russia, under which Russia would accept full responsibility for FSU debt in return for all foreign assets of the FSU. Kazakhstan initially agreed, but as the agreement must be accepted by all successor states, it has not yet gone into effect. Kazakhstan has paid neither its 1992 nor 1993 obligations under the existing debt. Kazakhstan has paid short-term obligations, including a $100 million loan from Oman. Commercial creditors have experienced some delays. As part of its financial divorce from Russia, Kazakhstan incurred its first inter-governmental debt, to the Russian republic. One estimate indicates that debt could already total $1.5 billion, depending on enterprise arrears.

Trade credits: Kazakhstan also began to receive supplier or trade credits from a number of countries. Germany, Austria, France, Japan, Hungary, and Turkey are among the countries that have authorized significant credits, totalling over $100 million in each case. The U.S. Eximbank indicated it was willing to provide up to $238 million in short-term credit insurance. By the end of 1993, however, EXIM had not yet agreed to offer medium-term credits.

5. Significant Barriers to U.S. Exports

U.S. exports to Kazakhstan appeared to be limited more by the ability of U.S. firms to service the Kazakhstan market and the availability of credit than by any specific barrier established by the Kazakhstan government. Structural barriers include a still weak system of business law, including the absence of effective bank-

ruptcy procedures, and the shortage of domestic capital to pay for U.S. intermediate and capital goods. The government appeared to have adopted a strategy of relatively low import barriers, paid for mainly by developing exports of raw materials.

U.S.-made products were increasingly in evidence in Kazakhstan. The U.S. has a small share of the private automobile market. U.S. consumer goods were popular. Kazakhstan became a market for U.S. capital goods, especially for the key oil and gas, minerals, and agriculture sectors. Kazakhstan has engaged in discussions for the purchase of U.S. commercial aircraft. Several hundred U.S. businesses have visited Kazakhstan to explore its markets.

The government maintained no legal barriers to imports of goods in general, or specifically to U.S. imports. No import licenses were required, as of the end of 1993. There were, however, a variety of restrictions on imports of services. For example, the insurance business is closed to foreign companies. Several U.S. Firms offering accounting and legal services are currently operating in Kazakhstan, and foreign airlines appear welcome. Officials have indicated that as part of the tightening of control over the economy with the introduction of the new currency, the government would take steps to limit imports, including the possible introduction of import licenses. The government proposed restrictions on import of non-essential goods by means of protective tariffs and duties as well as quotas, beginning January 1994. Standards and labeling requirements are in practice nonexistent, and at present do not constitute a constraint.

Kazakhstan has proven to be deeply interested in foreign investment, and has attracted investors from all over the world. Joint ventures have opened not only for the exploitation of natural resources, but also for the assembly of photocopiers, for assembly and manufacture of mining and agricultural equipment, and for oilfield supplies. During 1993, the first international equity issue for a Kazakhstan venture, the Bakyrchik gold mine, raised over $120 million on the London financial markets.

Formally, there is no equity or participation limit on foreign investment, although in practice most foreign investment is through joint ventures. There are no export performance requirements, local content requirements, restrictions on foreign personnel (other than taxes), or restrictions on repatriation of capital. In practice, repatriation of capital or profits may be limited by foreign exchange availability, but this problem will disappear if a freely floating exchange rate regime is adopted. Many investors and traders receive payment in commodities. Foreign firms are permitted in downstream operations and are allowed to function as intermediaries, a role they frequently fulfill for Kazakhstan government-owned entities.

Government procurement practices are not limited by formal "buy Kazakhstan" regulations, although there is a clear preference to buy local if possible. There is a growing preference to buy from a foreign supplier rather than from the former Soviet Union.

Kazakhstan has a customs agreement with Russia, amounting to a de facto customs union. It still uses customs procedures from the former Soviet Union, which can be cumbersome. Most goods transit other new independent states, unless they arrive by air or via China. Foreign firms can import items for their own use duty free.

Kazakhstan attained most-favored-nation status with the U.S. in 1993 following the entry into force of an Agreement on Bilateral Trade. A Treaty on the Avoidance of Double Taxation was signed by Secretary of State Christopher during his October 1993 visit. During his December 1993 visit to Almaty, Vice President Gore presided over the exchange of instruments of ratification which brought into force a Treaty concerning the Mutual Encouragement and Protection of Investment. Also in December, the Overseas Private Investment Corporation (OPIC) signed the first insurance and finance agreements for projects under its agreement to operate in Kazakhstan.

6. Export Subsidies Policies

Strapped for resources, the government has sharply reduced budgetary subsidization of state enterprises. Many enterprises received subsidized state credits, at interest rates so low they were, in practice, gifts. These subsidies, targeted at maintaining production and employment rather than exports, tend to be directed less at exporters which are already receiving revenues than at domestic producers, or the rapidly declining defense industry. Rather than target subsidies at its exports Kazakhstan does the reverse and taxes them. The precise rate of export taxes varies according to the product and can range up to 30 percent. Kazakhstan has protested as unfair restrictions on its exports (mostly metals) imposed by the U.S. and the E.U. under the antidumping laws. The U.S. Department of Commerce reached a consent decree with Kazakhstan in 1992 limiting uranium exports, imposed a 104

percent anti-dumping duty on ferro-silicon, and is investigating Kazakhstani exports of titanium sponge. Europe imposed duties on aluminum exports.

The government moved in 1993 to further limit and increase controls on exports, imposing an additional burden on the economy and further increasing opportunities for corruption. Responding in part to capital flight caused by enterprise managers, the government ordered that beginning January 1, 1994, enterprises would lose their authority to export directly, and instead be required to channel all exports of 18 critical products through approximately 10 state trading organizations controlled by the Ministry of Foreign Economic Relations. The list includes: oil and gas, coal and coke, ore and concentrates, ferrous and non-ferrous metals, alumina, precious metals and stones, products of organic and non-organic chemicals, radioactive chemical elements, grain, cotton, and caviar. These goods also would be subject to export quota. The regulations include a 100-percent surrender requirement for export proceeds, although this may be reduced to 50 percent.

7. Protection of U.S. Intellectual Property.

The civil code of Kazakhstan protects, in principle, intellectual property. However, the absence of criminal sanctions and lax enforcement have meant in practice that intellectual property rights are unprotected. In 1992, Kazakhstan acceded to the Geneva Convention on the Protection of Intellectual Property and joined the World Intellectual Property Organization. In late 1993, the government submitted to the Supreme Soviet a draft of a copyright law. If passed, legal sanctions against copyright violators could be implemented, and Kazakhstan would accede to the Berne Convention. The U.S.-Kazakhstan Bilateral Trade Agreement, which came into force in 1993, obligates Kazakhstan to protect intellectual property.

In 1992, Kazakhstan established a National Copyright Agency with jurisdiction over copyrights in arts, music, science and software, and a National Patent Department which registers and regulates patents and trademarks. Registration of trademarks began in July 1992. Trademark violation is a crime, and courts are empowered to arbitrate trademark infringement cases, but enforcement is rare.

Patent legislation guarantees the right of inventors to the "name" of their product, but financial rights of patent holders do not appear to be protected.

Pirated video recordings routinely appear on Kazakhstan television, but are apparently not mass produced in Kazakhstan. Sales of pirated counterfeit goods such as video and audio recordings result in some loss to U.S. industry, but the domestic capacity to pay is small. There is no indication that such items are exported. Theatrical showings of motion pictures are licensed. Consumer goods with pirated trademarks, particularly clothes, were sold in Kazakhstan but usually made elsewhere. Pirated computer software can be purchased. Software development and manufacture take place elsewhere in part because of limited local capability to produce advanced product.

8. Worker Rights

a. *The Right of Association.*—Kazakhstan joined the International Labor Organization in 1993. The Supreme Soviet adopted a new Labor Code in 1993 which, along with the Constitution, guarantees basic workers' rights, including the right to organize, the right to strike, and the right to join a union of the workers' choice. It does not protect workers from threats or harassment from unions or enterprise management. Several strikes occurred in 1993, including one in solidarity with a local media figure who lost his job.

Many workers remain members of the communist-origin, state-sponsored trade unions. These unions continued to deduct automatically one percent of worker paychecks for dues, and control the 30 percent of the workers salary deducted for pension fund, and an additional 7.3 per cent for disability and the use of vacation retreats. The state-run unions often use their power to enforce labor discipline and to discourage workers from joining independent unions.

Workers can form and join 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. Independent unions are members of a National Independent Trade Union Center, but only coal miners have obtained international affiliation. The government is particularly worried about labor unrest in the Karaganda area, especially among coal miners working in the large, but inefficient underground mine system.

b. *The Right to Organize and Bargain Collectively.*—There are significant limits to the 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 de-

mands 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 traditionally have been obliged to help with the harvest, with little or no compensation. Prisoners are also required to work, but they receive some compensation for their labor.

d. *Minimum Age for Employment of Children.*—Minimum age for child labor is 16. Some children work in Harvest, or on family plots, but the abuse of child labor does not appear to be a problem.

e. *Acceptable Conditions of Work.*—Most workers have suffered a decline in their standard of living due to the economic crisis and severe inflation. By the end of 1993, the minimum wage was insufficient to cover the purchase of even necessities working conditions are often substandard, with shortages or absence of safety or protective equipment. The many unhealthy work places are part legacy of the Soviet disregard for the environment. Exposure of Agricultural workers to unhealthful amounts of agricultural chemicals may have declined due to disruptions of supply.

f. *Rights in Sectors With U.S. Investment.*—Rights and conditions in sectors with U.S. investment do not differ substantially from other sectors. However, work places or enterprises with U.S. investment have much better conditions of work than the norm. U.S. companies have already improved conditions at some job sites.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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
Banking		0
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

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

THE KYRGYZ REPUBLIC

Key Economic Indicators

[Millions of Russian rubles unless otherwise noted] [1]

	1991	1992	1993 [2]
Income, Production, and Employment:			
Real GDP (1990 prices)	7,619	N/A	14.0
Real GDP Growth Rates (pct.)	−5.2	−19	−18.7
GDP at current prices	15,170	106,190	860.6
By Sector:			
Agriculture	5,461	N/A	262.3
Energy, Water and Manufacturing	6,826	N/A	445.8
Construction	1,214	N/A	34.9

Key Economic Indicators—Continued

[Millions of Russian rubles unless otherwise noted][1]

	1991	1992	1993[2]
Services and Others	1,669	N/A	117.3
Net Exports of Goods and Services	2,499	1,673	460.3
Labor Force (000's)	1,546	1,525	1,500
Unemployment Rate (pct.)	1.5	0.17	0.29
Money and Prices:			
Money Supply (Ml)	949	15,329	N/A
Base Interest Rate[3]	N/A	6	N/A
Personal Saving Rate	12.3	4.7	−11.5
Retail Inflation (pct.)	181	1,391	1,464
Wholesale Inflation (pct.)	259.6	1,754	1,106
Consumer Price Index	190.1	1,079	1,495
Exchange Rate:			
Ruble/$:			
Official	1.75	350	....
Parallel	145	350	....
Som/$ (October 93):			
Official	....	....	7.65
Parallel	....	....	8.85
Balance of Payments and Trade:			
Total Exports (FOB)	6,546	52,762	460.3
Exports to U.S. ($ millions)	9.1	N/A	2
Total Imports (CIF)	6,884	70,571	617.6
Imports from U.S. ($ millions)	0	8.9	15.7
Aid from U.S. ($ millions)	N/A	18.8	83.6
Aid from Other Countries	N/A	75.0	N/A
External Public Debt ($ millions	0	43.0	365
Debt Service Payments (paid)	0	0	2.2
Gold and FOREX Reserves	N/A	N/A	N/A
Trade Balance	−1,744	−17,809	−157
Balance with U.S. ($ millions)	N/A	N/A	−13.7

N/A—Not available.

[1] All figures used are from Kyrgyz government sources.

[2] Six-month data in millions of Kyrgyz soms unless otherwise noted. Ruble/som conversions are done at the rate of 200 rubles = 1 som.

[3] Average annual interest rate for 1993 was not available. The base interest rate on October 10, 1993 was 260 percent.

1. General Policy Framework

On August 31, 1991, the Kyrgyz Republic (Kyrgyzstan) declared its independence as the Soviet Union disintegrated. Since that day, the country has been struggling to define its own institutions, laws, and foreign relationships. To this end, a new constitution was adopted on May 5, 1993 by an overwhelming vote of the Jogorku Kenesh (the parliament). The constitution defines the Kyrgyz Republic as a democratic republic founded on secular principles. It provides for a government with three branches (legislative, executive, and judicial) presided over by a president who is the head of state.

The Kyrgyz Republic made significant progress in 1993 toward reforming the political and economic structures created during the soviet period. In addition to adopting a new constitution, the Kyrgyz Republic introduced its own national currency, the som. However, like all the "newly independent states" (NIS), Kyrgyzstan continued to face problems in instituting its economic reform.

The nation's economy continued to deteriorate in 1993 as industrial production declined further while prices rose as subsidies were removed and inflationary pressures continued. The introduction of the national currency, while giving the nation an opportunity to escape the higher inflation levels of the ruble zone, also exposed the economy to pressures from some of its neighbors and created an additional complicating factor in its trade with the rest of the NIS.

The Government of Kyrgyzstan remains firmly committed to the development of a market economy. With favorable laws on privatization, joint ventures, foreign

trade and investment, free economic zones and concessions to foreign investors, the government has aggressively pursued economic reform and courted foreign investment.

With the introduction of the som, control of monetary policy in Kyrgyzstan transferred from the Central Bank of the Russian Federation to the National Bank of Kyrgyzstan (NBK) in Bishkek. The emission rate of the som in May and June was 0.7 and 0.5 Percent, respectively, of the total money supply, compared to a 41 percent emission rate in April with the ruble. In July the discount rate offered by the NBK to banks and state organizations was doubled to 100 percent.

In an attempt to further control inflation, the government has been pursuing a restrictive budget policy aimed at reducing its growing budget deficit. On August 16, the government declared an emergency budget for the second half of 1993. The declaration stated that budget revenues for the first six months of 1993 were far below projected levels, with shortfalls in the collection of the value-added tax (VAT), the tax on profits, the industrial property tax, and especially the excise tax. In addition, mid-year increases in wages, pensions and other allowances added to the government's difficulties in balancing the budget.

The government introduced a variety of austerity measures to close the gap, including a 10-percent reduction in the size of the staff at the Ministries of Education, Health, and Culture as well as a five percent turnover tax (from which agriculture, energy, coal-mining and bread industry are exempt). Nevertheless, in the third quarter of 1993, budget expenditures exceeded revenues by 36 percent. The government's ability to successfully implement its austerity plan and generate additional revenues was in large part undermined by the continued contraction of the country's economy. Budget revenues for the second half of 1993 were projected to be 497 million soms while outlays were projected to be 657 million soms.

Kyrgyzstan is the first NIS for which the IMF approved an Upper Credit Tranche Standby Arrangement and also the first to have access to the Systemic Transformation Facility, with potential purchases amounting to about $85 million (92 percent of quota). This was followed by the approval of a $60 million import rehabilitation credit from the World Bank on IDA terms. The World Bank continues to coordinate international assistance efforts to Kyrgyzstan and in May held a consultative group meeting to discuss Kyrgyzstan's technical assistance needs and priorities. The Bank also intends to lend to Kyrgyzstan $80 million worth of fast-disbursing loans in the coming year. The Bank will focus in particular on the financial sector; enterprise restructuring; new business development and support; the creation of a social safety net; and, the promotion of the agricultural sector. Kyrgyzstan is also a member of the European Bank for Reconstruction and Development and the Asian Development Bank.

2. Exchange Rate Policy

Beginning in May 1993, the National Bank started supplying the inter-bank foreign exchange market through weekly foreign exchange auctions. Kyrgyzstan's foreign exchange market is segmented into official and black markets, and is tightly regulated by the National Bank, which limits the amount of currency that can be traded at the weekly auctions. The initial auction rate in May was four soms per dollar. By November 5 the rate had fallen to 7.70 soms per dollar.

The rates at state commercial banks and on the black market were higher than the rate fixed by the National Bank. At the beginning of November, they ranged from 8.5 To 9.2 Soms to the dollar.

3. Structural Policy

In 1993 Kyrgyzstan continued its privatization program. To date, 4,036 small and medium-size enterprises, constituting 27.5 percent of all state property, have been privatized. The rate of privatization is highest in the service sector (92.4 percent of value), followed by trade and public catering (71.1 percent), and the construction sector (55.3 Percent). In contrast, the share of privatized assets is much lower in industry (40.1 percent) and Agriculture (33.7 percent) and even less in the transportation and wholesale sectors.

Pricing policies: Price liberalization continued in 1993. The list of goods and services whose prices continued to be regulated was limited to energy, natural gas, coal, oil products, nonferrous metals and strategic raw materials. Only bread and bread products were still directly subsidized by the government, although at decreasing rates, and prices for bread increased five-fold from January to October 1993. Prices on dairy products were liberalized in February 1993 while prices for housing, transportation and communications had their subsidies removed, but remain regulated. The government also maintained a limit on the increase retailers can charge over

the wholesale price of a domestically produced product. Imports are exempt from this control.

Tax policies: The major source of revenue for the government is the value-added tax (20 percent) and enterprise profit taxes (35 percent). Imported raw materials and components labeled for foreign investment production are exempt from customs duties.

Foreign investment: Under Kyrgyzstan's foreign investment law, "the legal status and conditions of foreign investment will never be less favorable than the status and conditions of investment by juridical persons and citizens of the Kyrgyz republic." In May 1993, Kyrgyzstan's parliament adopted several amendments to the Law on Foreign Investment of February 1992. The new version of the law extends tax exempt status to foreign investors in all sectors with the following grace periods: five years in manufacturing and construction; three years in mining, agriculture, transportation and communications; and, two years in trade, tourism, banking, and insurance. After expiration of the initial tax-free period, the taxes imposed on profits will be reduced as follows: by 50 percent on profits reinvested in Kyrgyzstan; by 25 percent, if not less than 50 percent of the enterprise's products and services are exported; by 25 percent, if not less than 50 percent of production is derived from imported raw materials and components; and 25 percent, if no less than 20 percent of the profit is spent on professional training. The law also guarantees the right of foreign investors to repatriate their profits. In 1993, a Special Commission on Foreign Investment (Goskominvest) was created under the government with responsibility for registering and assisting foreign investors.

4. Debt Management Policies

In a July 1992 bilateral agreement, the Russian federation took over responsibility for Kyrgyzstan's share of the former Soviet Union's external debt in return for Kyrgyzstan's share of the former Soviet Union's external assets.

External public debt to the other NIS reached 166.6 billion rubles in 1993. Loans from non-NIS countries and international financial organizations amounted to $170.6 million, of which $13.6 million (interest payments) were to be paid in 1993. Thus as a percentage of GDP, the external debt increased from 4 percent in 1992 to 60 percent in 1993.

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, add further practical barriers to exporters.

To normalize its trade and investment relations with the Kyrgyz Republic, the United States has proposed a new network of bilateral economic agreements. The U.S.-Kyrgyz Trade Agreement, which provides reciprocal most-favored-nation status, was concluded and entered into force in August 1992.

The same year, the trade agreement was followed by the conclusion of an Overseas Private Investment Corporation (OPIC) incentive agreement offering political risk insurance and other programs to U.S. companies interested in investing in Kyrgyzstan. In January 1993, a U.S.-Kyrgyz Bilateral Investment Treaty (BIT) was signed establishing a bilateral legal framework to stimulate mutual investment. In December 1993, the U.S.-Kyrgyz Bilateral Investment Treaty came into effect, establishing a bilateral legal framework to stimulate mutual investment. Further discussions are needed on the bilateral tax treaty, which would provide businesses relief from double taxation.

6. Export Subsidies Policies

Kyrgyzstan inherited the Soviet legacy of subsidization of state enterprises, but these subsidies are aimed at maintaining employment and production, and not specifically at making exports more competitive.

In 1992, the U.S. Department of Commerce made a preliminary finding that uranium from Kyrgyzstan was being dumped in the United States. In October 1992, the Department of Commerce signed an agreement with Kyrgyzstan to suspend the dumping investigation.

7. Protection of U.S. Intellectual Property

A package of laws on intellectual property rights has been introduced in Kyrgyzstan's parliament and is to be discussed during its December session in 1993. The new laws will provide for international obligations in the area of intellectual property rights. The U.S.-Kyrgyz Trade Agreement includes commitments on protection of intellectual property.

8. Worker Rights

a. *The Right of Association.*—In February 1992, the government adopted a comprehensive law which included provisions protecting the rights of all workers to form and belong to trade unions. The law requires a minimum of five workers to form a union. There is no evidence that government policy sought to obstruct the formation of independent unions. Unions are legally permitted to form and join federations and to affiliate with international trade union bodies.

b. *The 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 continued to be set by government decree. Union members are protected by the law from antiunion discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is forbidden and does not occur.

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. Restrictions on the use of child labor are largely observed.

e. *Acceptable Conditions of Work.*—The standard work week is 41 hours, usually within a five-day week. Safety and health conditions in factories are far behind western standards. An April 1992 law established occupational health and safety standards as well as enforcement procedures.

f. *Rights in Sectors With U.S. Investment.*—There is no significant U.S. investment in the Kyrgyz Republic.

LATVIA

Key Economic Indicators

[Millions of current lats unless otherwise noted]

	1991[1]	1992[1]	1993[2]
Income, Production, and Employment:			
Real GDP (1990 prices)[3]	57.3	37.9	22.7
Real GDP growth (pct.)[3]	−8.3	−32.9	−22.0
GDP (at current prices)[3]	143.3	1,004.6	970.4
By Sector:			
Agriculture, Forestry	27.02	163.36	159.89
Manufacturing	58.33	302.65	257.92
Construction	8.02	50.10	39.00
Mining and Quarrying	0.27	1.47	1.19
Fishing	1.60	3.68	4.40
Energy and Water	2.92	16.20	15.19
Services	45.10	467.08	492.94
Net Exports of Goods and Services	N/A	572.7	527.5
Real Per Capita GDP (lats at 1990 prices)[3]	21.51	14.41	8.8
Labor Force (000's)	1,527	1,502	1,483
Unemployment Rate (pct.)	N/A	[4] 2.3	[5] 5.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	151.0	N/A
Base Interest Rate (pct.)	N/A	120.0	27.0
Retail Inflation (pct. chg.)	124	951	13.6
Wholesale Inflation	124	N/A	32.1
Exchange Rate ($ per lat):[1]			
Official	N/A	N/A	N/A
Market	N/A	1.12	1.64
Balance of Payments and Trade[6] (millions of U.S. dollars unless noted):			
Total Merchandise Exports (FOB)	6,357	831	527.5
Exports to U.S	N/A	11	1.8
Total Merchandise Imports (FOB)	5,186	1,017	413.5
Imports from U.S	N/A	55	6.1
Aid from U.S	4.7	6.0	9.0

Key Economic Indicators—Continued

[Millions of current lats unless otherwise noted]

	1991[1]	1992[1]	1993[2]
External Public Debt[4]	10.0	58.3	[5] 184.8
Debt Service (paid; mill. lats)	N/A	17.55	7.57
Gold and FOREX Res. (mill. lats)	0	77.5	[7] 336.2
Trade Balance	N/A	1,171	114.0
Balance with U.S.	N/A	−44	−4.3

N/A—Not available.

[1] Since Latvia's currency, the lat, did not begin circulating until March 1993, the figures given express the exchange rate for Latvian rubles (in 1992) at the official 200/1 ruble-to-lat 1993 conversion rate.
[2] January–September, 1993.
[3] GDP estimates are for the state sector only; the private sector is believed to account for about 25 percent of Latvian economic activity in 1993. Due to high inflation in 1991–2, real GDP data for 1992–93 based on 1990 prices are essentially meaningless indicators.
[4] End-of-year total for 1992.
[5] As of November 1, 1993.
[6] Merchandise trade includes ruble zone.Source:For 1991and 1992, IMF and U.S. Department of Commerce figures inU.S. dollars.For 1993, U.S. Embassy estimates in millionlats.
[7] As of October 1, 1993.

1. General Policy Framework

Since independence was restored in August 1991, Latvia has made steady progress toward replacing the centrally-planned, socialist system imposed during the Soviet period with a structure based on free-market principles.The country is one of the first post-Soviet economies to achieve macroeconomic stability, having lowered inflation to an annual rate of 7.6 percent in the second and third quarters of 1993 and recorded a balance of trade surplus for the first half of 1993.

As amended on October 28, 1993, the Latvian state budget for 1993 foresees a deficit of 30.2 million lats, or 1.8 percent of GDP, which is anticipated to be financed by borrowing from the Bank of Latvia and by the sale of short-term bills. Latvia is the only post-Soviet economy to have introduced a freely-convertible national currency, the lat, while relying on market forces to determine the exchange rate. Its laissez faire policies with respect to foreign exchange have contributed to Riga's emerging as a financial center for the former USSR.

Structural reform has proceeded most rapidly in agriculture and in the privatization of small enterprises. Over 53,800 private farms have been established and most remaining collective farms transformed into private joint stock companies. However, many of Latvia's new farmers are operating at subsistence levels due to lack of financial resources and credit. Control over urban and rural property is being returned to former owners; the legal right to urban property has not been established and mechanisms for title registration, sale and mortgaging of real property are not yet fully developed. The pace of privatization of large enterprises has been slow, as only about a dozen of Latvia's largest industrial enterprises have been privatized. Privatization of industry has lagged, in part because large enterprises are perceived by potential investors as outdated, inefficient dinosaurs with doubtful or limited futures.

Latvia's economic transition has been hurt by the collapse of industrial and agricultural exports to Russia and the NIS due to rapid inflation of the ruble and NIS currencies and by the failure of state-to-state mechanisms for settling payments. Foreign investment in Latvia remains modest and is expected to amount to only $50 million in 1993. Latvia's growing private sector is estimated to account for as much as 25 percent of the country's GDP. That growth and Riga's emerging role as a regional financial and commercial center is beginning to offset the ongoing shrinkage of the state sector. Latvia probably experienced a 10–12 percent decline in real GDP in the first half of 1993 and is expecting flat growth in the second half of the year. Latvia is forecast to experience real growth in the one to five percent range in 1994. The rapid deceleration of inflationary pressures in 1993 has helped to stabilize living conditions. However, rapid inflation at the end of the Soviet period wiped out most personal savings, adding to the hardship of pensioners on fixed, subsistence-level incomes.

2. Exchange Rate Policy

The exchange rate of the lat is determined by market forces with limited intervention by the Bank of Latvia. In 1993, Bank of Latvia intervention was aimed at preventing the lat from appreciating too rapidly. Latvia does not restrict the import, export, exchange or use of foreign currencies inside the country. The Bank of Latvia

has foreign reserves roughly double the value of all lats in circulation; based on these reserves, the Bank of Latvia guarantees the full convertibility of the lat. The Bank of Latvia is exercising a policy of monetary restraint consistent with International Monetary Fund guidelines.

Between January and September 1993, the lat appreciated 44 percent against the U.S. dollar and 41 percent against the German mark. The lat, which was worth $1.65 on November 1, 1993, is believed to still be undervalued against the main convertible currencies by perhaps as much as 50 percent on purchasing power parity basis. Convertibility of Latvia's currency has created a small, but dynamic market for western consumer goods. Export opportunities for capital goods are largely dependent on the availability of multilateral bank or other foreign financing.

3. Structural Policies

The Latvian government's overriding economic goal is to manage a smooth transition to a market economy. It has accepted the challenge of adopting measures to control inflation, limit the growth of the state budget deficit, promote foreign investment, move forward with privatization, and build a legal and regulatory infrastructure comparable to those in advanced industrialized countries. While Latvia passed bankruptcy legislation in 1991, administrative mechanisms and procedures are not yet functioning well in that the law does not establish criteria for initiating bankruptcy procedures or provide a mechanism for rehabilitating enterprises on the brink of bankruptcy.

Price policies:The Latvian government almost completely decontrolled farm procurement and retail food prices in December 1991 and removed restrictions on the pricing of industrial goods in January 1992. To safeguard producers, support prices were maintained for the procurement of cereals, sugar beets, flax, meat, milk, and poultry. Less than eight percent of goods and services remained subject to control, including energy, telecommunications, rents and other public services.

Tax policies: Latvia is in the process of implementing a modern tax structure, which will include a value-added tax (vat), a profit tax, a graduated personal income tax, excise and property taxes, customs duties, land and natural resource taxes, and a social security tax. Until a true vat is implemented, the government is collecting an 18 percent turnover tax on most goods and services; the turnover tax rate for agricultural products is 10 percent. The profit tax is applied to annual net profits at rates of 25–45 percent. The law on foreign investment provides for tax reductions for up to five years for qualifying foreign investments. The social security tax is collected on all wages, fees, royalties and rewards for work; the general social security tax rate is 37 percent for employers and one percent for employees. A general import duty of 15 percent applies to imports from countries with most-favored-nation (MFN) agreements with Latvia. Imports of raw materials, spare parts, fuel, grain, cooking oil and a few other basic consumption goods are exempt from import duties. Latvia collects an export duty on timber, metals, leather, paper and a few other products.

Privatization: In March 1992, Parliament adopted framework privatization legislation and, in October 1992, approved, in principle, privatization by voucher. Although their role is still unclear, the vouchers apparently will be used to buy land, apartments and shares of stock in joint stock or limited liability companies. The government elected in June 1993 intends to streamline industrial privatization by centralizing responsibility in a single privatization agency. In a related action, the new government has abolished or trimmed back branch industrial ministries and plans to consolidate state-owned industries in a state property fund pending privatization.

Regulatory policies: Latvia is only beginning to create a modern system to regulate economic activity. The Bank of Latvia is responsible for regulating the banking industry and has started to create a supervisory structure. An anti-monopoly law was adopted in December 1991 and the monopoly and competition department was established to monitor anti-competitive practices. In February 1993, Latvia established a price and tariff council to oversee price determination for goods and services provided by monopolies or subject to direct state control.

4. Debt Management Policies

Latvia declared in 1992 that it is not a legal successor to the Soviet Union and therefore is not responsible for any part of the Soviet Union's foreign debt. Latvia and Russia have not agreed on the settlement of obligations arising during Latvia's illegal annexation by the Soviet Union.

Through November 1, 1993, the Government of Latvia has borrowed $184.8 million from foreign creditors. Foreign credits and official credit guarantees amounting to $316.8 million for Latvia have been approved, including an SDR 54.9 million

Standby Arrangement with the International Monetary Fund. On October 1, 1993, Latvia's official foreign exchange and gold reserves were valued at $336.2 million.

5. Significant Barriers to U.S. Exports

The main barriers to U.S. exports to Latvia are structural. While remarkable improvement has taken place over the last year, Latvia's business, banking and legal infrastructures are not developed to western standards. Notwithstanding the rapid appreciation of the lat in 1993, Latvia's currency remains undervalued, constraining the limited purchasing power of the Latvian consumer.

Under the 1991 Investment Law, the laws of the Republic of Latvia apply equally to domestic and foreign investors. The investment law applies some limits to foreign investment. Acquisition of controlling shares in a Latvian enterprise with assets exceeding $1 million must be approved by the cabinet of ministers. Foreign investors may engage in, but not obtain control over, enterprises involved 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 non-renewable national resources; internal fisheries; hunting; and port management. Latvia does not restrict the repatriation of profits. On July 1, 1993, the government of Latvia began to apply the turnover tax to articles being imported by foreign investors.

6. Export Subsidies Policies

The Latvian government does not currently provide export subsidies. However, the government is reportedly planning to establish a sugar production promotion fund that may be used, inter alia, to provide an export subsidy to Latvian confection producers. The fund would supported by transfers of the turnover tax collected on the sale of refined sugar; the administration of the fund and the proposed subsidy have not been defined.

7. Protection of U.S. Intellectual Property

The government of Latvia is committed to attaining a level of protection for intellectual property rights comparable to that provided under international conventions. Pursuant to that commitment, the Latvian Parliament in 1993 passed legislation to protect copyrights, trademarks and patents.

While the legal basis for intellectual property rights has been established, Latvian law has not defined penalties for violation of these rights nor established a judicial or administrative mechanism through which foreign owners may seek effective redress for violation of their intellectual property rights. Latvia has been a member of the World Intellectual Property Organization since 1992 and intends to join the Bern Convention and possibly the Geneva Convention. Unauthorized reproductions of copyrighted video recordings imported from Russia are widely distributed in Latvia. To halt the use of pirated films imported from Russia by private Latvian television stations, the Latvian radio and television board on October 27, 1992, adopted a ruling under which the license of any domestic television company would be revoked if it is unable to show that it has legally acquired the rights to the films it broadcasts. The board does not apply this ruling to signals from the Russian television stations Ostankino and RTR that are re-broadcast directly by Latvian television.

Latvia's intellectual property practices have not had a serious impact on U.S. trade outside the film and video industry.

8. Worker Rights

a. *The Right of Association.*—Latvia's Law on Trade Unions mandates that workers, except for uniformed military, have the right to form and join labor unions of their own choosing. As of fall 1993, about 50 percent of the work force belonged to unions; union membership is falling as workers leave Soviet-era unions that include management or are laid off as Soviet-style factories fail. The Free Trade Unions Federation of Latvia, the only significant labor union confederation in Latvia, is non-partisan, though some leaders ran as candidates for various smaller parties that failed to enter Parliament. Unions are free to affiliate internationally and are developing contacts with European labor unions and international labor union organizations.

The law does not limit the right to strike. Latvia saw almost no strikes in 1992. Although many state-owned factories are on the verge of bankruptcy and seriously behind in wage payments, workers fear dismissal if they strike and non-citizens fear striking may affect their residency status. While the law bans such dismissals, the government's ability to enforce these laws is weak.

b. *The Right to Organize and Bargain Collectively.*—Large unions have the right to bargain collectively and are largely free of government interference in their nego-

tiations with employers. The law prohibits discrimination against union members and organizers. Some emerging private sector businesses, however, threatened to fire union members; these businesses usually paid better salaries and benefits than were available elsewhere. No export processing zones exist in Latvia.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is banned and is not practiced.

d. *Minimum Age for Employment of Children.*—The statutory minimum age for employment of children is 15, though 13-year-olds can work in certain jobs outside school hours. Children are required to attend school for nine years. Child labor and school attendance laws are enforced by state authorities through inspections. The law restricts employment of those under 18, such as by banning night shift or overtime work.

e. *Acceptable Conditions of Work.*—The labor code provides for a mandatory 40-hour maximum work week with at least one 24-hour period of rest, four weeks of annual vacation, and a program of assistance to working mothers with small children. As of September 1993, the minimum monthly wage was set at 15 lats (about $24); the poverty line is estimated by Latvian authorities to be 45 lats ($72) per month. Many Soviet-style factories are on the verge of bankruptcy and are seriously behind in wage payments or have put workers on reduced hours. Latvian laws establish minimum occupational health and safety standards for the work place, but these standards seem to be frequently ignored.

f. *Rights in Sectors With U.S. Investment.*—Latvian employees working for U.S. investors enjoy rights equitably under Latvian law and these rights are in line with western standards.

LITHUANIA

Key Economic Indicators

[Millions of litas unless otherwise noted][1]

	1991	1992	1993[2]
Income, Production, and Employment:			
Real GDP (1992 prices)[3]	5,247	3,269	2,710
Real GDP Growth (pct.)	−13.4	−35.0	−17.1
GDP (at current prices)[4]	39,105	3,269	11,189
By Sector:			
Agriculture	N/A	546	2,048
Energy and Water	N/A	125	470
Manufacturing	N/A	2,525	7,764
Construction	N/A	225	582
Other Services	N/A	282	1,074
Government	N/A	811	2,030
Net Exports of Goods and Services	+38	+306	−159
Real Per Capita GDP ('92 BPS)	1,418	884	732
Labor Force (000's)	1,835	1,848	1,793
Unemployment Rate (pct.)	0.01	1.0	2.0
Money and Prices (annual percent growth):			
Money Supply (mill. litas)[5]	412	351	160
Base Interest Rate (pct.)[6]	10	120	95
Consumer/Retail Prices	225	1,021	160
Exchange Rate (litas per $):			
Official (period avg.)	[7] 1.75	3.79	4.50
Parallel (period avg.)	[7] 114	3.79	4.50
Balance of Payments and Trade[8] (millions of U.S. dollars unless noted):			
Total Merchandise Exports (FOB)	6,783	1,145	4,524
Exports to U.S. (FAS)	N/A	5	27
Total Merchandise Imports (FOB)	4,937	1,084	4,683
Imports from U.S. (Customs)	N/A	44	222
External Public Debt ($ mill.)	0	40	357
Debt Service ($ million paid)	0	5	25

Key Economic Indicators—Continued

[Millions of litas unless otherwise noted][1]

	1991	1992	1993[2]
Gold and FOREX Reserves ($ mill.)	107	232	253
Trade Balance	−1,806	61	−159
Balance with U.S	N/A	−39	−195

N/A—Not available.

[1] The litas was introduced on June 20, 1993, and replaced the then temporary currency, the talonas, at a conversion rate of one litas per 100 talonas.
[2] Estimated.
[3] Figures for 1991 are converted into litas from rubles that were then actually in use.
[4] GDP at factor cost; 1991 figure is in USSR/Russian rubles.
[5] In "broad money" as defined by the IMF.
[6] Figures are actual, average interest rates.
[7] Figure is 1991 avg. rate for USSR/Russian ruble per dollar.
[8] Merchandise trade includes ruble zone. Source: For 1992, IMF and U.S. Department of Commerce figures in U.S. dollars. For 1993, U.S. Embassy estimates in Litas.

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 fall of 1991 that attention has been focused on economic issues facing the country. Lithuania has been experiencing a sharp economic downturn and a decline in real income levels. However, with the assistance of the IMF and other international institutions, Lithuania has brought its soaring inflation under control and hopes to stabilize its economy in 1994.

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. Trade ties with the former Soviet Union are expected to continue, although at a reduced rate.

Lithuania has embarked on a series of price liberalizations and most price controls have been abolished. The government has established a central bank for regulatory purposes. Lithuania has abandoned the Soviet ruble in favor of its own currency, the litas. Many businesses have been privatized and private citizens are allowed to own land for the first time. 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 and monetary policies, price structure, tax laws, land ownership laws, fiscal reform and foreign trade reform.

2. Exchange Rate Policies

On June 20, 1993, Lithuania introduced its own national currency, the litas. It is convertible at floating market rates of exchange. The litas rate against the dollar has been fluctuating from 4.5 to 3.8.

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. However, due to market monopolies and oligopolies in several sectors, the Lithuanian government has imposed measures to control anti-competition price fixing.

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 entitles 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 their goods in the Lithuanian market. Enterprises which exploit existing communications, electricity delivery, gas, oil and water supply, heating and sewage systems are also considered to be monopolistic.

The law also provides for the right to seek international arbitration and 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 the 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.

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, which is a result of the centralized planning process which led to extreme specialization. A factor of overriding importance has been the economic dependence of Lithuania on the then Soviet Union. Due to existing quality differentials between Lithuanian consumer goods and world class products, as well as transport costs and market familiarity factors, the natural market initially will remain in the countries of the Commonwealth of Independent States (CIS).

A significant barrier to U.S. exports is the decline of Lithuania's domestic economy since 1991. This has resulted in lower effective demand for commercial imports, including potential imports from the United States. 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 exercised controls on certain exports. There are no export subsidies.

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 II. In 1990 Lithuania joined the World Intellectual Property Organization (WIPO) and there are plans to join the Paris Convention for the protection of industrial 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. *The Right of Association.*—Prior to the August 1991 coup attempt, Lithuanian workers remained largely subject to Soviet labor law which did not permit the right to associate freely in practice. Since the failed coup, Lithuania has adopted legisla-

tion 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. *The 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 claimed a dues-paying membership of 50,000. A separate 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 workweek. Blue collar staff have a 48 hour workweek with premium pay for overtime. There are minimum legal health and safety standards for the work place. 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.

MACEDONIA*

The former Yugoslav Republic of Macedonia proclaimed its statehood in 1991. Although recognized by several states including China, by November 1993 it had not been recognized by the United States. 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 severe shock on account of the conflict in the former Yugoslavia, which has caused a flood of refugees (now estimated at 15,000), a breakdown of trade and capital flows, and the loss of infrastructure. Compliance with the UN sanctions against Serbia has improved significantly since September 1993 at a severe cost to the Macedonian economy. The risk of a breakdown in Macedonian sanctions enforcement remains a threat to the effectiveness of the international sanctions regime.

Macedonian GDP, which has suffered a 50 percent decline from pre-war levels, dropped an additional 17 percent in 1993. Industrial production in 1993 fell by about 20 percent and only about 40 percent of the country's industrial capacity was in use at the year's end. Official unemployment stood at approximately 30 percent of the labor force. Some 30 percent of those nominally employed were additionally classified as "surplus labor" and placed in a "forced vacation" status in which they received minimal wages often several months delayed. The average monthly salary was $126 in September—less than the cost of food for the average family—but substantially higher than the average monthly salary in Serbia/Montenegro.

Industry and mining are the largest sectors of the economy, together contributing about 40 percent of GDP. Agriculture normally contributes about 15 percent of GDP, but a drought has reduced 1993 harvests and increased consumer prices of agricultural products. Most of Macedonia's agricultural sector is in private hands, while the industrial base is largely under state control. The existing private sector, which is small but growing and service-oriented, has also suffered. Retail sales were down 45 percent in the first half of 1993 compared with the same period in the previous year. Tourism virtually disappeared as a result of the Yugoslav conflict. The transport sector, which is heavily geared toward north-south transit from Greece to Serbia, was severely disrupted.

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*Macedonia has proclaimed independent statehood but has not been formally recognized by the United States as a state.

There has been a dispute regarding the name under which it should be recognized. We use "Macedonia" in this report informally for convenience; its use is not intended to have international or diplomatic significance.

In spite of a harsh economic climate, the Macedonian government has taken steps to transform its centrally planned economy to a market-based economy. Inflation, which exceeded 1,600 percent in 1992, dropped to single figures for the first nine months of 1993 before rising to a monthly rate of 12 percent in October 1993. In June, the Macedonian government adopted a privatization law. Reacting to the worsening economic situation, Macedonia also imposed restrictions on the amount of foreign currency leaving the country. In October, the government created a Steering Committee for the Agency for Economic Transformation, which will oversee the privatization of over 400 Macedonian companies. Macedonia is a member of the IMF and hopes to receive a substantial influx of development assistance from the international financial institutions after clearing arrears to the World Bank, which it inherited from the former Yugoslavia.

MOLDOVA

Key Economic Indicators

[Millions of rubles unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP	N/A	N/A	N/A
Real GDP Growth (pct.)	−18	−21	−15
GDP (at current prices)	24,800	226,700	N/A
By Sector (pct. GNP):			
Agriculture	41.7	47.2	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Construction	N/A	N/A	N/A
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	N/A	N/A	N/A
Government, Health and Education	14.7	25.8	N/A
Net Exports of Goods and Services	N/A	N/A	N/A
Real per capita GNP (US$)	2,170	1,260	N/A
Labor Force (000's)	2,463	2,460	N/A
Unemployment Rate (pct.)[1]	N/A	10	11
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	N/A
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation (pct.)[2]	162	1,300	[2]N/A
Wholesale Price Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate ($/ruble):			
Official	1:1.8	N/A	N/A
Parallel	N/A	N/A	N/A
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB)[3]	155.1	118.8	108.0
Exports to U.S.[3]	8.7	0.1	0.8
Total Imports (CIF)[3]	603.5	163.7	145.4
Imports from U.S.[3]	N/A	29.9	11.5
Aid from U.S	N/A	20.0	10.0
Aid from Other Countries	10.0	40.3	87.0
External Public Debt	N/A	N/A	N/A
Debt Service Payments (owed)[4]	N/A	3,300	N/A
Gold and FOREX Reserves	N/A	−2.4	−31.6

Key Economic Indicators—Continued

[Millions of rubles unless otherwise noted]

	1991	1992	1993
Trade Balance[5]	3.5	−36.9	−218.8
Balance with U.S	N/A	N/A	N/A

N/A—Not available.

[1] Registered unemployment is very low (below one percent of the labor force), but growing numbers of industrial workers are on unpaid leave or working just a few hours per week.

[2] Figures are actual, average annual inflation rates, not changes in them. Retail inflation averaged 25 percent per month for the first six months of 1993, but subsequently was higher.

[3] 1993 Figures are for first three quarters.

[4] Debt is owed but none was paid.

[5] In millions of rubles for 1991. Figures for 1992–93 are current account deficit as percent of gdp.

1. General Policy Framework

Moldova is a former Soviet Union republic that now has a transitional economy. Since the break-up of the former Soviet Union, Moldova has suffered a sharp decline in its terms of trade. Moldova does not have any domestic sources of fossil fuels, and must now purchase its fuel at prices that approach world levels. This will result in a financing gap of an estimated $150 million in the coming year. The World Bank estimates that GDP per capita has declined more than 35 percent since 1990 to $1,260 in 1992.

The Moldovan government has developed a strong consensus in support of market economic reform, and has taken the steps necessary to secure an IMF Systemic Transformation Facility (approved September 16, 1993) and World Bank rehabilitation loan (approved October 25, 1993), with good prospects for an IMF Standby Arrangement before the end of 1993. In 1993, Moldova began small-scale privatization, limited its government deficit by reducing subsidies and ending non-budgetary government credits, and introduced a national currency (the leu). (Note: the leu will be introduced before December 31, 1993.) 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.

The budget deficit for 1992 was 21 percent of GDP, financed largely by the central bank. In 1993 the budget adopted by parliament called for the deficit to be limited to six percent of GDP, and issuance of the Moldovan coupon has been restrained. Social transfers (including education and child benefits) and the government's involvement in production place a considerable strain on the budget.

2. Exchange Rate Policy

In September 1992, Moldova adopted a unified market exchange rate for the ruble and reduced the surrender requirements for hard currency earnings from 50 to 35 percent. In principle, a foreign exchange auction was introduced at the same time, but lack of sufficient hard currency to offer has kept it from operating regularly. Moldova also adopted the inter-bank interest rates set on the Moscow inter-bank credit market.

Since July 1993 when the Central Bank of Russia recalled Soviet rubles, the Moldovan ruble (coupon, issued since June 1992) has been distinct from the Russian ruble. Official currency transfers via banks in Moscow have been very difficult, with the Moldovan ruble steeply discounted and Moscow banks holding the funds for months while the Russian banks lend the money and its value depreciates. In practice, large sums of Moldovan currency cannot be converted into hard currency.

3. Structural Policies

Remaining government price controls and subsidies were lifted on September 1, with the exception only of some types of bread and dairy products when sold in state stores. Some items continue to be purchased from enterprises by the state at "contract prices", when the goods might otherwise be unsalable. As energy prices rise, Moldovan products are pricing themselves out of their old former Soviet markets. Prices for competing goods are freely set by the market. Moldovans have found imports from the United States to be very competitive because they are a better value than similar European products.

Tax policies are burdensome and a disincentive to production in Moldova. The effective tax rate on profits can exceed 100 percent depending on what order taxes are applied in. Legislative changes are needed in the tax regime, but these are not expected to be possible until after new parliamentary elections scheduled for February 27, 1993.

4. Debt Management Policies

Moldova in October 1993 signed the zero option agreement with Russia renouncing both its claim to a share of Soviet Union assets and its liability for any Soviet debt. Because of its lack of foreign exchange income with which to service new debt, Moldova has not contracted much, but has a growing liability to Russia for energy supplies. Current energy credits from Russia are on much less favorable terms than previously, with unliquidated barter balances slated to convert to dollar-denominated debt. A 27 million ECU credit from the EC is on very unfavorable terms.

5. Significant Barriers to U.S. Exports

The most significant barrier to U.S. exports is that Moldova has not accumulated sufficient hard currency to pay for them. Moldova has few products that can be competitive on western markets because of low quality and poor packaging, and in the near term much of its trade must be oriented toward the former Soviet Union. The Moldovan government currently has several large commercial arrearages to U.S. firms.

Moldova has signed a Bilateral Investment Treaty with the United States, which awaits ratification by the Moldovan Parliament. Moldova is beginning a privatization program, and some properties are being auctioned for cash. Most state property will be auctioned to the population using non-transferrable vouchers, but the stocks in privatized enterprises obtained in this way will be immediately tradeable on a stock exchange. Moldova is planning to have its stock exchange in operation by the beginning of 1994. By the end of 1994, 35 percent of the value of state assets is to be privatized. 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.

Export taxes were abolished and a new low, fairly uniform import tariff schedule and a value-added tax (VAT) for non-former-Soviet-Union imports were adopted in September 1993. The legal status of services barriers is unclear, but Moldova in practice has declined to accept 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.

6. Export Subsidies Policies

Moldova does not explicitly subsidize exports. Energy costs to producers are charged at the cost of the energy to the Moldovan government.

7. Protection of U.S. Intellectual Property

Laws are those of the former Soviet Union, which commit Moldova to some protection of intellectual property rights. Enforcement is poor because Moldova never had its own enforcement capability. Because Moldova is a very small country, the overall level of infringement is relatively low.

8. Worker Rights

a. *The 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 establish alternate trade union structures independent of the successor to the previously existing official organizations which were part of the Soviet trade union system.

The successor organization, which at the republic level is called the Federation of Independent Trade Unions of Moldova (FITU) broke with the Moscow-based General Confederation of Trade Unions in 1992. FITU's continuing role in managing the state insurance system and its retention of previously existing official union headquarters and tourist facilities provide an inherent advantage over any newcomers who might wish to form a union outside its structure. However, its industrial, or branch unions are developing as more independent entities, maintaining that their membership in FITU is voluntary and that they can withdraw if they wish. Several threatened to withdraw in 1992 to block the election of a former Communist Party secretary to its presidency; they succeeded.

FITU has insisted on the right to have union representatives involved in the negotiations to set the minimum wage. FITU has opposed government measures to raise prices before back salaries were paid. In these matters, it has begun to leave behind

its role as accessory of the Communist Party and to work on securing better treatment for workers.

Unions may affiliate and maintain contacts with international organizations. Moldova is a member of the ILO.

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 are no known cases of major strikes or collective bargaining agreements in 1993.

There were no reports of actions taken against union members for 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 period after they leave those positions. This law has not been tested in Moldova.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not specifically prohibited; 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. In the countryside, children assist in farm work.

e. *Acceptable Conditions of Work.*—The minimum wage did not keep pace with inflation in 1993 and does not provide a decent standard of living for a worker and family. The minimum wage was raised in 1993 from 3000 rubles per month to 7,500 rubles per month (equivalent in September to about $3.75.)

The state is required to set and check safety standards in the work place. The unions within the FITU 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.*—To date there is no U.S. direct investment in Moldova.

THE NETHERLANDS

Key Economic Indicators

[Millions of Guilders unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1980 prices)[2]	411,831	418,421	418,421
Real GDP Growth Rate (pct.)	2.1	1.6	0.0
GDP (current prices)[2]	543,560	563,220	573,300
By Sector:[3]			
Agriculture	20,890	21,070	21,439
Energy and Water	9,040	9,090	9,249
Manufacturing	202,770	201,780	205,311
Construction	26,820	27,490	27,971
Rents	46,710	48,150	48,993
Financial Services	23,320	23,400	23,809
Other Services	396,410	407,760	414,896
Government, Health and Education	54,800	55,180	56,146
Net Exports of Goods And Services	25,350	25,150	27,500
Real Per Capita GDP	27,273	27,528	27,348
Labor Force (000's)	6,860	6,932	6,988
Unemployment Rate (pct.)	7.2	6.9	7.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	4.7	6.6	6.6
Base Interest Rate[4]	8.7	8.1	6.5
Personal Savings Rate	8.6	9.2	8.0
Retail Inflation	2.0	2.0	1.3
Wholesale Inflation	0.5	−0.9	−1.2
Consumer Price Index	107.7	111.7	114.5

Key Economic Indicators—Continued

[Millions of Guilders unless otherwise noted]

	1991	1992	1993[1]
Exchange Rate (guilders/$): Official	1.87	1.76	1.89
Balance of Payments and Trade:			
Total Exports (FOB)[5]	248,809	245,861	244,631
Exports to U.S	9,569	9,983	10,415
Total Imports (CIF)[5]	234,609	236,159	232,617
Imports from U.S	18,350	18,322	20,154
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Debt Service Payments (paid)	25,261	26,804	28,328
Gold and FOREX Reserves	55,973	65,330	62,531
Trade Balance[5]	19,200	9,702	12,014
Balance With U.S	−8,781	−8,339	−9,739

[1] 1993 figures are all estimates based on six-month data.
[2] GDP at market prices.
[3] GDP at factor costs.
[4] Figures are actual, average annual interest rate.
[5] Merchandise trade.

1. General Policy Framework

The Netherlands is one of the most prosperous economies in Europe. The economy depends heavily on foreign trade and is characterized by: stable industrial relations fostered through consultations among industry, unions and government; a large surplus in external balances from trade and overseas investments; natural gas exports which make Holland a net exporter of a fuel increasingly in demand; and, a geographic location as a European transportation hub with the world's largest port, Rotterdam, a prime production site and distribution center for foreign firms seeking access to Europe.

In an effort to reverse a dramatic rise in unemployment, the coalition government in its last term of office has made job creation its top priority. Substantial investment in education and infrastructure will continue, as will subsidies for research and development of cutting-edge technologies. Aggressive and innovative export credit financing is available. European Union (EU) programs supplement Dutch development and restructuring. The government has contained the growth of labor costs through consultation among the "social partners" (government, labor and employers). Wage restraint and a reduction of the individual burden of taxes and social security contributions are seen as key to boosting employment and improving the Dutch competitive position. The OECD regularly criticizes the Netherlands in its annual reports for its restrictive incomes policy which contributes to a large current account surplus.

Stable labor relations are aided by generous unemployment, disability and sickness benefits. This has created over 81 benefit recipients (including pensioners and those on disability) for every 100 productive workers in 1992. The government claims that, at a ratio of 86:100, maintaining the social welfare system becomes a threat to economic growth, so it is determined to cut social security programs. There are plans to streamline current systems in favor of "mini-systems" characterized by less government intervention and maximum individual responsibility.

The Netherlands is one of the world's premier overseas investors and trading nations. Dutch trade and investment policy is among the most open in the world. Nevertheless, the state dominates the energy sector, and plays a large role in transport, chemicals, aviation, telecommunications and steel. The government has reduced its role in the economy since the early eighties, but calls for a national industrial policy have been revived.

Restrictive fiscal policy aims to reduce a large budget deficit. The government has gradually cut the deficit from more than 10 percent of Gross Domestic Product (GDP) in 1983, to 3.4 percent in 1993. Although further deficit reduction will take a back seat to employment growth, the government continues on an austere course. However, with current slow GDP growth, further deficit cuts are increasingly difficult. Weaker growth and sharply rising unemployment put the deficit target of 3.3 percent of GDP for 1993 out of reach. The deficit in 1993 and 1994 is expected to stick at 3.4 percent of GDP. Nonetheless, the new target will allow the Netherlands to meet the EMU target of three percent of GDP by 1999. The Dutch would there-

fore fulfill two of the three main EMU convergence criteria (budget deficit and inflation).

The deficit is largely funded by government bonds. As of January 1, 1994 financing will also be covered by issuing Dutch Treasury Certificates (DTC). DTC's will replace a standing credit facility for short-term deficit financing with the Netherlands Central Bank which, under the Maastricht Treaty, will be abolished in 1994.

2. Exchange Rate Policies

Since the introduction of the European Monetary System (EMS) in 1979, the Netherlands Central Bank (NB) has aimed monetary policy towards maintaining the stability of the exchange rate between the guilder and the German mark, using interest rate policy to maintain this link. The guilder is currently the strongest currency in Europe. When the EMS fluctuation bands were widened to 15 percentage points in August 1993, in agreement with Germany the guilder was kept within the original 2.25 point EMS fluctuation band.

The NB exerts control over money market rates by adjusting short-term 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 signal the market which way it wants it to develop. For this purpose the NB uses a three billion guilder portfolio of treasury issues from which it can sell or buy.

Because Germany is the Netherlands' main trading partner, the link with the mark is expected to remain virtually unchanged. The strong guilder is expected to have a positive impact on Dutch imports from the United States. A strong guilder also minimizes exchange rate risks to U.S. investors in the Netherlands. There are no multiple exchange rate mechanisms.

There are no exchange controls, although Netherlands residents must obtain an exchange license for certain large international financial transactions.

3. Structural Policies

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 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 high unemployment 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 investor's own capital. Grants range from 10 to 20 percent of the investment in buildings and equipment, and sometimes land. A 20 percent grant is available for new branch and restructuring projects, and 15 percent for expansion projects. Full details are available from the Netherlands Foreign Investment Agency. Local subsidies are also available.

In another effort to attract investment, in 1993 the government established an office to give binding tax rulings to foreign companies in advance of investment. While normal taxes are not relaxed, companies have the ability to clarify, often favorably, tax situations subject to various interpretations.

In November 1993, the government set up a 900 million guilder (about $470 million) industrial fund to finance restructuring projects by medium and large Dutch enterprises. The money will come from the government, commercial banks, insurance companies, pension funds, and the National Investment Bank. Financing for new projects will be provided up to a ceiling of 50 million guilders per project. The government hopes the fund will help improve the structure and competitiveness of the economy. Based on applications so far, the fund should have enough money for at least twelve months.

4. Debt Management Policies

With a surplus on the balance of payments current account of more than two percent of GDP in 1992 and no external debt (all public debt is denominated in Dutch guilders), the Netherlands is a major creditor nation. However, since the early eighties, the gross public debt ratio of the public sector (EMU criterion) has grown sharply, to 79.7 percent of GDP in 1992. Debt servicing and debt rollover have risen in step to near ten 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 50 percent of GDP. This makes the Dutch economy one of the most internationally oriented in the world. The Netherlands is the ninth-largest U.S. export market, as well as the one with which the United States has its largest bilateral trade surplus, close to $9 billion in 1992. Total U.S. exports to the Netherlands in 1992 were up two percent over 1991. The Netherlands is the third largest direct investor in the United States, behind the United Kingdom and Japan. Dutch accumulated investment in the United States in 1992 rose by three percent over 1991 to over $61 billion. U.S. direct investment in the Netherlands fell slightly to about $19 billion, a drop of three percent over 1991.

Most trade barriers that do exist result from common EU policies. Some areas of potential concern for U.S. exporters to the Netherlands follow:

Offsets for defense sector contracts: The Ministry of Defense has a policy that requires all foreign contractors to provide at least 100-percent offset compensation as a condition for defense purchases over five million Dutch guilders. Under this requirement, the seller must arrange for the purchase of Dutch goods or permit the Netherlands to produce in-country certain components or sub-systems of a weapons system it is buying from a U.S. (or other foreign) supplier. In a recent decision on the purchase of helicopters for the Dutch military, it was alleged that a non-U.S. bid was accepted which contained offsets of civil aviation procurement in conflict with relevant GATT and U.S.-EU agreements. The Dutch have denied this charge.

Broadcasting and Media Legislation: Amendments to the Dutch Media Act relating to public broadcasting which liberalized the law by admitting for the first time local and foreign commercial broadcasting stations into the Dutch cable network took effect in 1992. Dutch compliance with the EU broadcasting directive and the 50-percent-EU-content requirement is not primarily a United States-Dutch issue, but one between the United States and the EU. In any case, U.S. television programs are highly popular and readily available in the Netherlands.

Although the export sector of the Dutch economy is open and free of competition restraints, cartels, bid rigging and price fixing exist in the domestic sector of the economy. Cartels have been legal in the Netherlands if accepted for registration by the government. Cartel arrangements include price fixing both by product area and from distributor to retailer, as well as restrictions against market entry, restrictions on sales territories and sales quotas. Cartels are not necessarily limited to Dutch companies. In order to comply with EU requirements and to curtail cartel activities, the government in 1993 introduced legislation which bans horizontal price-fixing activities. Nevertheless, the government is under EU pressure to do more, and the Trade Minister's promise to solve the problem by mid-1993 has not materialized. Thus cartels are a potential threat to foreign firms seeking to do business in the Netherlands. However, the Embassy is not aware of any complaints by U.S. businesses of having been negatively impacted by the cartels in the Netherlands.

Central government public procurement is generally open and transparent and in compliance with the EU Procurement Directive and the GATT Government Procurement Code. However transparency and enforcement in this area can be deficient, especially with regard to public notification of tenders by local authorities, and offset or local content requirements.

In this regard, the EU Utilities Directive is one example which could be of concern because of its provisions allowing preferences for high EU-content bids in the telecommunications and energy sectors, including the large market for goods and services to the Dutch oil and gas sector. Up to now, only Dutch entities have been allowed to compete with the Dutch PTT for a second national network.

Dutch compliance with the Utilities Directive warrants close scrutiny. The directive may have a positive effect by forcing more public notification and ending the virtual monopoly of two Dutch companies in public utility construction which is done by local authorities. Much will depend on how the Dutch interpret the directive.

6. Export Subsidies Policies

The Netherlands has almost no preferential or discriminatory export or import policies with the exception of those which result from its membership in the European Union. The EU is a signatory to the GATT Subsidies Code, making The Netherlands 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 indirectly supported Fokker, the Dutch aircraft manufacturer, with loans and loan guarantees as well as with direct support for development 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 support of Fokker to a minimum.

There are some subsidies for shipping. Under strict circumstances, Dutch shipowners ordering new vessels or buying existing vessels not older than five years may be eligible for a premium of 10 percent of the contract price distributed over five years. Subsidies for shipbuilding have been gradually reduced since 1980. The present guideline is the seventh EU Directive which allows a maximum aid level of nine percent for shipbuilding after consideration of tax allowances. In conformity with the OECD Understanding, the government grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a vessel's cost with a maximum repayment period of 8.5 years. This subsidy is only available when it will be "matching" similar offers by non-EU shipyards. The government may also guarantee loans to Dutch shipping companies for investment purposes.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR problems, with the exception of the enforcement of anti-piracy laws (see 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 Europe-wide 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, which could result in divergent interpretations detrimental to U.S. investors and exporters.

The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and video tapes, and textbooks. The Dutch government has recognized the problems in protecting intellectual property. Legislation is slated for enactment at the end of 1993 to explicitly include computer software as intellectual property under the copyright statutes.

In 1993 a dispute arose between a government-owned company and U.S. firm over a non-disclosure agreement covering the U.S. company's intellectual property. The Dutch company has denied wrongdoing and has taken the U.S. company to court in the Netherlands for slander.

8. Worker Rights

a. *The Right of Association.*—The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions. Unions are entirely free of government and political party control and 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 "life-essential" activities; meanwhile, disputes involving this sector are subject to arbitration.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized and well-established. There are no union shop requirements. Discrimination against union membership does not exist. Dutch society has developed a social partnership among government, private employers, and trade unions. This tripartite system involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such agreements 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 8 hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people, The Netherlands has a reduced minimum wage for employees between ages 16 and 23.

e. *Acceptable Conditions of Work.*—Dutch law and practice adequately protect the safety and health of workers. There is no legally-mandated work week; it is set by collective bargaining. The average workweek for adults is 38 hours. The legally-mandated minimum wage is subject to semi-annual living cost adjustment.

f. *Rights in Sectors With U.S. Investments.*—The above described workers rights hold equally for goods-producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,465
Total Manufacturing		7,216
Food & Kindred Products	652	
Chemicals and Allied Products	3,511	
Metals, Primary & Fabricated	433	
Machinery, except Electrical	987	
Electric & Electronic Equipment	408	
Transportation Equipment	78	
Other Manufacturing	1,148	
Wholesale Trade		3,043
Banking		133
Finance and Insurance		4,931
Services		1,600
Other Industries		726
TOTAL ALL INDUSTRIES		19,114

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

NORWAY

Key Economic Indicators

[Millions of Norwegian Krone unless otherwise stated]

	1991	1992	1993[1]
Income, Production and Employment:			
Real GDP (1991 prices)	686,683	709,316	718,537
Real GDP Growth (pct.)	1.6	3.3	1.3
GDP (at current prices)	686,683	701,650	754,800
By Sector (1991 prices):[2]			
Agriculture & Fisheries	20,052	19,702	19,500

Key Economic Indicators—Continued

[Millions of Norwegian Krone unless otherwise stated]

	1991	1992	1993[1]
Energy, Water & Shipping	149,300	162,446	167,200
Manufacturing & Mining	94,293	96,004	96,100
Construction	24,705	24,471	24,570
Rents	33,811	33,968	34,050
Financial Services	27,897	27,318	27,000
Other Services	224,715	229,432	232,117
Government, Health and Education	111,910	115,975	118,000
Net Exports of Goods and Services	60,428	51,277	65,000
Real Per Capita GDP (91 BPS)	160,966	165,342	168,402
Labor Force (000's)	2,130	2,131	2,134
Unemployment Rate (pct.)	5.5	5.9	6.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	10.60	7.30	5.00
Base Interest Rate[3]	10.00	12.60	7.00
Personal Savings Rate (pct.)	2.6	5.0	5.4
Retail Inflation	3.4	2.3	2.3
Wholesale Inflation	2.5	0.1	−0.1
Consumer Price Index	3.4	2.3	2.3
Exchange Rate (NK/$)	6.48	6.21	7.00
Trade and Balance of Payments:			
Total Exports (FOB)	223,420	219,687	224,953
Exports to U.S.[4]	10,275	11,260	14,900
Total Imports (CIF)	170,305	166,387	172,067
Imports from U.S.[4]	12,857	13,821	13,000
Aid from U.S.	0	0	0
Aid from other Countries	0	0	0
External Public Debt	25,953	55,335	92,223
Debt Service Payments (paid)[5]	5,780	2,739	3,112
Gold and Foreign Exchange Reserves	80,411	84,496	110,000
Merchandise Trade Balance	53,115	53,300	52,886
Balance with U.S.[4]	−2,582	−2,561	1,900

[1] Figures are estimates based on October 1993 data.
[2] Only available at constant 1991 prices.
[3] Central Bank overnight lending rate; not annual percentage growth.
[4] Norwegian foreign trade statistics. Exports exclude Norwegian oil shipped to the U.S. from U.K. terminals.
[5] Principal payments.

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.

Norway's population is relatively small. 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, including agriculture, survive largely through generous subsidies and protection from external competition. These will likely experience a painful period of adjustment in the years ahead as the government adapts to the emerging EU single market, regardless of its final decision on EU membership.

Norway and the other EFTA countries have negotiated an economic cooperation agreement with the EU under the framework of the European Economic Area (EEA). The Norwegian government submitted an application for EU membership on November 25, 1992. EU membership will be decided by a referendum, if Norwegian demands (e.g., exemptions in the fisheries and oil sectors) are met in membership

negotiations. Meanwhile, opinion polls continue to suggest that Norwegians are deeply divided over the issue.

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 to the 1990's, 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 has increased substantially over the past decade. On the expenditure side, the most significant development has been 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 industry.

Norway controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank overnight lending rate. 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

On December 10, 1992, Norway unpegged the krone from the ECU and let the Norwegian currency float. Since then, the krone has depreciated over 10 percent vis-a-vis the dollar. Norway plans to return to a "fixed" exchange rate regime at a future date.

Norway strives to maintain a stable exchange rate. Norway is not a member of the European Monetary System but in 1990 the Norwegian krone (NK) was pegged to the European Currency Unit (ECU). Prior to this move, the NK was pegged to a trade-weighted basket of currencies in which the weight of the U.S. dollar accounted for 11 percent. The ECU peg broke the direct link between the NK and the U.S. dollar. Under the ECU peg, Norwegian interest rates and inflation tended to move toward EU levels.

Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating here have never reported problems to the Embassy 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. Some structural reforms have been implemented in the past five 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 bad loan portfolios and overstaffing which will likely require further corrective action.

Over the past four years, limited income tax reform has lowered personal income tax rates and broadened the tax base. Although modest progress has been made in reducing subsidies to Norwegian industry, Norway's farm sector remains the most subsidized in the OECD. Norwegian subsidies and non-tariff barriers (e.g., quotas) adversely affect U.S. farm 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 Government of Norway remains committed to an ambitious structural reform program which may gradually improve U.S. market access, but 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. At the end of 1992, the external debt (foreign liabilities) of the government stood at about US$ eight 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.

Since 1990, the government has allowed the private sector increased access to long-term foreign capital markets to facilitate improvements in the term structure of its foreign debt. Following the floating of the Norwegian krone, foreign capital inflows contributed to falling Norwegian interest rates.

5. Significant Barriers to U.S. Exports

Norway supports the principles of free trade and is quick to condemn protectionist measures of other countries. In general, U.S. exporters experience few problems doing business in Norway but some areas of tension exist. While Norway is in the process of reforming its agricultural support regime, quantitative import restrictions and producer subsidies adversely affect U.S. farm exports, as noted earlier. Due to the substantial Norwegian government ownership of major Norwegian companies and government organization of business groups, American companies that have a Norwegian subsidiary or agent/distributor are able to operate in this market much more effectively.

In the area of public procurement, the U.S. has 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 (a separate regulatory body under the auspices of the Ministry of Transportation and Communications) has said it has improved the speed and efficiency with which it approves telecommunications devices used in Norway. American companies without European production facilities, however, report that it still takes up to six months and significant fees to a Norwegian agent to certify telecommunications equipment not used in large-scale Norwegian government purchases.

Norway is in the process of liberalizing its telecommunications industry to make it compatible with EC integration, and is actually much more open to purchasing American telecommunications equipment and services than most other European countries outside of the U.K. Norwegian government control of this field, however, is still maintained by majority Norwegian ownership as detailed below.

Recent deregulation of financial markets appears to have eliminated many of the barriers facing U.S. financial institutions which seek to operate in the Norwegian market. Norway's ongoing efforts to bring its laws into compliance with EU directives are being carried out on a non-discriminatory basis. This means that in many cases, U.S. financial institutions can look forward to continuing liberalization in the Norwegian market.

Norway maintains reservations to the OECD Code of Liberalization of Capital Movements with regard to inward direct investment. Foreign ownership in Norwegian corporations cannot exceed to 33 percent of equity unless a concession is granted. Moreover, a single foreign investor cannot acquire more than a 20 percent stake in a Norwegian corporation without a concession. 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

The impact of Norway's intellectual property rights (IPR) practices on U.S. trade is negligible. Norway is a signatory of the main IPR accords, including the Bern Copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of IPR protection. They complain of the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

8. Worker Rights

a. *The Right of Association.*—Workers have the right to associate freely and to strike. The Government can invoke compulsory arbitration under certain circumstances with the approval of Parliament.

b. *The Right to Organize and Bargain Collectively.*—All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by law and does not exist.

d. *Minimum Age for Employment of Children.*—Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. *Acceptable Conditions of Work.*—Ordinary working hours do not exceed 37.5 hours per week, and 25 working days of paid leave are granted per year (31 for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions.

f. *Rights in Sectors With U.S. Investment.*—Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,251
Total Manufacturing		291
Food & Kindred Products	(1)	
Chemicals and Allied Products	11	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	11	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	45	
Wholesale Trade		171
Banking		68
Finance and Insurance		123
Services		16
Other Industries		126
TOTAL ALL INDUSTRIES		4,047

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

POLAND

Key Economic Indicators

[Billions of zlotys unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP (1990 prices)	530,583	538,609	557,000
Real GDP Growth (pct.)	−7	1.5	4
GDP (at current prices)	824,329	1,142,429	1,188,126
GDP by Sector (pct.): [1]			
Agriculture	6.2	7.3	7.0
Energy and Water	N/A	N/A	N/A
Manufacturing	40.2	39.6	40.2
Construction	10.2	11.2	11.3

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Key Economic Indicators—Continued

[Billions of zlotys unless otherwise noted]

	1991	1992	1993
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	N/A	N/A	N/A
Government, Health and Education	N/A	N/A	N/A
Net Exports of Goods and Services	N/A	N/A	N/A
Real Per Capita GDP (000 Zlotys)	13,876	14,039	14,551
Labor Force (000's)	18,300	18,400	18,000
Unemployment Rate (pct.)	11.8	13.6	16.0
Money and Prices (annual percentage growth):			
Money supply (M2)	44.5	56.5	37.0
Base Interest Rate	([2])	38	29
Personal Saving Rate	10.4	22.4	20.7
Wholesale Inflation	48	37	38
Consumer Price Index	70	43	38
Exchange rate (000's PZL/$):			
Official	13.0	15.5	[3] 19.8
Parallel	13.5	15.8	[3] 20.1
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	14,903	13,187	N/A
Exports to U.S	351	374	N/A
Total Imports (CIF)	15,756	15,913	N/A
Imports from U.S	441	637	N/A
Aid from U.S.[4]	115	179	N/A
Aid from other countries[5]	440	270	300
External public debt	46,500	47,044	47,700
Debt service payments (paid)	1,702	2,393	2,509
Gold and foreign exchange Reserves (end-of-year)	3,800	4,280	[3] 3,720
Trade balance	−853	−2,726	N/A
Balance with U.S	−90	−262	N/A

N/A—Not available.

[1] In some cases the statistical systems and methods applied in Poland differ from those used in U.S. The GDP by sectors is presented in Polish statistical publications as follows:

	1991	1992	1993
Industry	40.2	39.6	40.2
Agriculture	6.2	7.3	7.0
Construction	10.2	11.2	11.3
Transportation/Communications	5.6	3.5	3.5
Trade	13.1	15.0	15.0

[2] In 1991 and 1992 the base interest rate was the refinance credit rate while in 1993 the rediscount credit rate. In February 1991, the refinance credit rate 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 rate was stable in 1992. In July 1992, it was reduced from 40 percent to 38 percent. In February 1993, the refinance credit rate was lowered to 35 percent and remained at that level. For 1993 the rediscount credit rate has been accepted as the base interest rate and has been set at 29 percent.

[3] End—September 1993.

[4] Aid from U.S. consists of SEED funding and food assistance only.

[5] Aid from other countries mainly consists of EEC grants, the British Know-How Fund and the French assistance program.

1. General Policy Framework

The year 1993 was a year of accelerating economic recovery and growing impatience with the cost of reform in Poland. While the economy grew four percent (following one percent growth in 1992), public perception was increasingly that reforms had failed to restore prosperity to Poland (notwithstanding soaring sales of many types of consumer goods) and should be changed. This negative sentiment culminated in the September 19 elections, which produced a majority for two left wing parties.

After two years of steep decline, the economy began to recover in 1992. Even though the worst drought on record cut one percent off of GDP, GDP still grew by over one percent. This performance was followed by four percent growth in 1993, making Poland the fastest growing economy in Europe. The strongest sector, leading the recovery, has been industrial production. Although at the start of the recovery in early 1992 Poland was running a substantial trade surplus, giving the impression that exports were leading growth, since the fourth quarter of 1992 there has been a large trade deficit, indicating that demand is rising even faster than output. While much of the trade deficit is the result of imports of capital goods funded by foreign investment and represents the modernization of the Polish economy, there are also large imports of consumer goods, which may put unsustainable pressure on the balance of payments. The size of the trade deficit has led to increased pressure from Polish farmers and manufacturers for protection from foreign competition, as well as demands from exporters for competitive devaluation, subsidized export credits, and other support for Polish exports. In August, 1993, the National Bank of Poland (NBP—the central bank) responded with an eight percent devaluation of the zloty.

Parliamentary elections held in September, 1993 gave nearly two-thirds of the seats in the Sejm (the dominant lower house of Parliament) to two leftist parties, the SLD (descended from the Polish communist party) and the PSL (formerly the Communists' fellow traveller peasant party). These parties have formed a coalition, which has stated its intention of continuing economic reform, but also faces many demands from different groups for benefits to moderate the harsher effects of reform. The PSL's agrarian constituency is particularly interested in higher support prices for farm products, and also variable levies and export credit guarantees.

The fiscal deficit appears to be a long term problem for the Polish government. After persuading the IMF to accept 1993 deficit targets of ZL 81 trillion (five percent of GDP), it appears Poland will actually run a deficit in 1993 of ZL 55–60 trillion, in part because the government has been unable to sell sufficient numbers of its bonds to the banking system. With the new government facing increasing pressure 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.

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 four years. Credit policy has become increasingly contentious as businesses argue that interest rates are too high, building in inflationary expectations and stifling business growth. Banks, on the other hand, argue that present interest rates are justified by high commercial default risk and large government borrowing to finance the budget deficit.

Polish trade policy has undergone a number of rapid changes since 1990. Currently, it appears aimed at securing improved preferential access to export markets for Polish goods, while protecting Polish producers in their home market. Even before the elections the Ministry of Foreign Economic Relations (MFERS) had prepared a plan for export credit guarantees and other export promotion measures aimed at restoring Polish exports to the former Soviet Union. The Ministry of Agriculture had also prepared a plan for a variable levy to protect farm price supports. Both these projects have been included in early policy statements by the new government.

In 1990, Poland established a trade regime which could be described as the most open in Europe. After the zloty became internally convertible in January 1990, imports grew rapidly. 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 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. Tariffs were increased further in January 1992 when tariffs were raised on consumer luxuries (tobacco products, electronics, computers, and automobiles). Yet another new tariff schedule was introduced on July 5, 1993. While it incorporated only minor changes in tariff rates, it did introduce new elements, like seasonal tariffs on agricultural produce and increased use of tariff rate quotas. It was accompanied by a number of tariff suspensions, which MFERS says lowered the average applied tariff to 11 percent.

Although Poland's association agreement with the EC has not been ratified, its trade provisions were brought into effect by a transitional agreement in March 1992. This agreement gives both Poland and the EU preferential access to each oth-

er's markets. Resulting tariff preferences for EU products have given them a competitive advantage over products from the United States and other countries.

Because the association agreement has been followed by large deficits in Poland's trade with the EU, it has generally been viewed in Poland as favoring the EU and giving Poland inadequate preference in the EU market, despite the EU's insistence that the benefits in the agreement do favor Poland and that the trade deficit is the result of Poland's need to import goods to modernize its economy. The association agreement probably helped galvanize sectoral representatives who felt sold out by the concessions given to the EU into organizing more effective lobbying of the government.

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 (NBP—the central bank) has managed the exchange rate through a crawling peg mechanism. This is intended to devalue the zloty by small, daily increments to offset domestic inflation and keep Polish exports competitive. On August 27, 1993 the NBP responded to the deteriorating current account with a one-time devaluation of eight percent. At the same time, the NBP slowed the rate of the crawling peg devaluation from 1.8 percent per month to 1.6 percent per month. 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 (five percent), and the Swiss franc (five 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 NBP is required to grant or receive foreign credits.

3. Structural Policies

Prices: Almost all subsidies and controls on the prices of consumer goods have been eliminated. Subsidies remain on a few items, including preferential credit for 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: On July 5, 1993, Poland introduced a value added tax (VAT), replacing the turnover tax, a complicated and non-transparent tax on output formerly used by communist governments. Indirect taxes (VAT and excise taxes) are the Polish government's largest source of income, producing about 40 percent of revenues. The personal income tax (introduced only in January 1992) is the second-largest source, producing about 25 percent of revenues. The corporate income tax produces about 15 percent of revenues, and customs duties nine percent.

Regulatory policies: Poland has eliminated the former state monopoly on foreign trade. The foreign trade organizations which conducted all trade under communist rule 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, wine and hard liquor, cigarettes, and, new in 1993, for whole poultry. 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 potash fertilizers;
—plastics: polyethylene; polypropylene; and copolymer ethylene propylene;
—polyvinyl chloride;
—synthetic rubber and synthetic fiber;
—chip-boards; wood cellulose; and waste paper;
—preserved and half-tanned hides.

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 $48 billion at the end of August 1993. Debt to foreign government creditors is to be reduced by a minimum of 50 percent (calculated according to net 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 April 1994, contingent upon Poland's remaining in compliance with an IMF agreement. Poland is pursuing comparable treatment from its commercial bank creditors. Creditor countries do this by reducing the principal; reducing interest payments; or through a mixture of lower interest payments and new credits. The U.S. made a further 10 percent reduction and agreed to Poland's using another 10 percent for an environmental fund. This reduced Poland's debt to the U.S. by 70 percent, from $3.8 billion to $1.14 billion. Following Poland's conclusion of a Stand-by Agreement with the IMF in March 1993, talks with Poland's London Club commercial bank creditors have resumed. 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 EU. Although the Association Agreement has not yet been ratified, its trade provisions were brought into effect in March 1992. This reduced or eliminated tariffs on about one-quarter of Poland's imports from the EU. These tariff preferences give EU exporters a competitive advantage over their rivals from the United States and other countries. Remedies are being sought in the course of negotiations for Poland's re-accession to the GATT.

While Poland is in the process of developing its own export controls for strategic items, it remains subject to COCOM controls. Therefore, certain high technology exports to Poland still require a U.S. export license. A Polish import certificate is necessary to support the U.S. export license.

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 EU 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. Some U.S. exporters have complained that particular SANEPID offices have levied unnecessary quarantine requirements on them. 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.

Services barriers: Legally, foreign banks are permitted to establish themselves in Poland, either as joint ventures with Poles or as wholly foreign owned ventures. However, in an effort to get foreign banks to invest in financially troubled Polish banks, the NBP has said it will suspend the issuance of permits necessary for foreign banks to establish themselves in Poland. Minimum capital requirements for establishing new banks 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:

—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.

—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.

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.

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 one 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 two million and one of the following conditions is met:

The company will operate in regions of high structural unemployment;
The company will ensure the introduction of new technologies;
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 which 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, but the 1991 Foreign Investment Law actually provides stronger protection to foreign investors than those contained in the treaty.

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 July 1993, Poland's MFN duties have averaged 14 percent, although a number of these tariffs have been suspended to lower levels, so that the applied rate averages 11 percent. Since December 1992, a six percent customs surcharge has been applied on top of the scheduled duty. This is a temporary measure designed to help close the budget deficit and protect Poland's balance of payments, and is to be phased out by the end of 1995. It is applied to all Polish imports, including those from the EU. Imports are also subject to VAT (also applied to domestic goods), which has a basic rate of 22 percent. 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 Subsidy 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 Rights

Intellectual property is an area of some concern, particularly in copyright matters. The Polish government in theory subscribes to most international standards for protection of intellectual property. 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. However, 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, 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. 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. As a result, Poland was placed on the Special 301 Watch List in 1992 and 1993. In 1993, the International Intellectual Property Association filed a petition to remove GSP benefits from Poland for failure to provide an effective level of intellectual property rights protection. The petition was accepted for review. A final decision is expected by mid-1994.

8. Worker Rights

a. *The 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 are once again under revision. 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. *The 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 1992–93, 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 enforces legal protection of minors, but its inability to 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 1,650,000 per month (or roughly $85 at the exchange rate of Zl 19,500/Dollar) as of October 1, 1993. The average monthly wage is roughly Zl 3,845,000 ($197).

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. *Rights in Sectors With U.S. Investment.*—As with the rest of the Polish private sector, it is impossible to comment authoritatively on workers rights in sectors of U.S. investment because of inadequate government monitoring.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		264
Food & Kindred Products	60	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance and Insurance		(1)
Services		2
Other Industries		0
TOTAL ALL INDUSTRIES		285

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

PORTUGAL

Key Economic Indicators

[Millions of dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)[2]	23,912	24,127	24,127
Real GDP growth (pct.)	2.5	1.1	0.0
GDP (at current prices)[2]	68,788	80,300	80,300
By Sector:			
Agriculture	4,058	4,576	4,118
Energy and Water	2,682	3,212	3,212
Manufacturing	19,260	21,990	21,990
Construction	4,540	5,620	5,920
Services	38,521	45,770	45,928
Net Exports of Goods and Services	−742	−156	N/A
Real Per Capita GDP ($,'92BPS)	2,440	2,483	2,483
Labor Force (000's)	4,787	4,340	4,274
Unemployment Rate (percent)	4.1	4.5	7.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.1	16.0	14.0
Base Interest Rate[3]	17.8	16.0	11.5
Personal Savings Rate	16.2	15.0	13.9
Retail Inflation	8.1	7.4	6.0
Consumer Price Index	11.4	8.9	7.0
Exchange Rate ($/PE): Official	144.5	135.0	160.3
Balance of Payments and Trade:			
Total Exports (FOB)[4]	16,242	18,206	17,500
Exports to U.S	617	590	N/A
Total Imports (CIF)[4]	24,001	27,714	28,000
Imports from U.S	884	916	N/A
Aid from other countries	2,134	3,163	3,300
External Public Debt	17,260	18,673	20,000
Debt Service Payments (Paid)	3,575	3,570	3,450
Gold and FOREX Reserves	26,100	24,461	22,500
Merchandise Trade balance	−7,855	−9,508	−10,500
Balance with U.S	−267	−326	N/A

N/A—Not available.

[1] Estimated.

[2] 1993 Figures are all estimates based on available monthly data in October 1993.

[3] GDP at factor cost.

[4] Figures are actual, average annual interest rates, not changes in them.

1. General Policy Framework

The government's fundamental economic goal is to modernize Portugal's markets, industry, infrastructure, and work force in order to match the productivity and income levels of the more advanced European Union (EU) partners. With 1992 per capita income equaling only 57 percent of the EU average, Portugal's catching up is a long-term process.

The government's medium-term economic objective is to be in the first tier of EU countries eligible to join the Economic and Monetary Union (EMU) as early as 1997. Portugal's inflation rate, five points above the EU average at the end of 1992, is the key impediment to attaining this goal. As a result, economic policy in 1993 focuses on reducing inflationary pressures by lowering the fiscal deficit, maintaining a stable escudo, moderating wage increases, and encouraging increased competition. Policymakers appear to be willing to accept slower growth rates and higher unemployment levels as the price for membership in the EMU. The official 1993 inflation target range is five to seven percent. Many private observers expect actual results will be about seven percent.

The crisis in the European Monetary System that erupted in September 1992 had a negative impact on Portugal's balance of payments position and forced two devalu-

ations of the escudo. International reserves, large by EU standards, fell by $1.5 billion in 1992. At the end of 1992, all barriers to capital movements were eliminated.

For the second consecutive year, the rate of growth of the Portuguese economy slowed. During 1992, real GDP growth reached only an estimated 1.1 percent real growth rate, down from an average 4.5 percent growth in the fast-paced 1986–1990 period. The recession in the EU, which accounts for 75 percent of Portugal's international trade, is the key factor explaining recent economic performance. The cyclical downturn has been accentuated by structural adjustment problems in traditional industries. There is a growing evidence that the economy will register little or no growth in 1993.

Prime Minister Cavaco Silva and the Social Democratic Party (PSD) won a renewed absolute Parliamentary majority in 1991. With this four year mandate, the government has continued its program of wholesale restructuring of the economy through privatization of the public sector, encouragement of private sector modernization, and opening the domestic economy to increased external competition.

2. Exchange Rate Policy

In April 1992, the government formally adhered the escudo to the six percent-wide band of the Exchange Rate Mechanism (ERM) of the European Monetary System. Until the ERM crisis erupted in September 1992, the escudo had been one of the strongest currencies in the grid, usually trading at the upper end of the band.

When Portugal did not accompany the Spanish peseta's first devaluation in September 1992, speculation against the escudo intensified. The Bank of Portugal intervened heavily to support the escudo and hiked short-term interest rates. In November 1992, however, the escudo was forced to devalue in line with the peseta and again, albeit partially, in May 1993. In August 1993, all currencies in the ERM were allowed to fluctuate within a band plus or minus 15 percent of their central parity rates. In spite of the instability in the ERM, the government maintains its commitment to exchange rate stability as a key element in its plans for economic restructuring, investment, and combatting inflation.

3. Structural Policies

The Portuguese government continues to liberalize economic structures to stimulate growth and bring the country more in line with EU standards. EU assistance programs aimed at reducing structural imbalances in Portuguese agriculture, industry, commerce and regional development will approach 3.7 percent of GDP in 1993. As a result of decisions at the December 1992 Edinburgh Summit, Portugal expects to double, in real terms, EU financial assistance flows in the 1993 to 1999 period. As these programs require significant Portuguese Government counterpart funding, the government's budget cutting options are limited.

The privatization program, begun in 1989, accelerated in 1992. The government received 214 billion escudos ($1.6 billion) in privatization revenues in 1992, by far the most important year in the privatization program.

There is no uniform procedure for privatization operations. One of the government's concerns has been to assure that Portuguese groups are not overwhelmed in the bidding by European or other investors with substantially deeper pockets. Maximum foreign ownership percentages are normally set on a case-by-case basis. The government may retain a substantial voice in management of selected firms.

4. Debt Management Policies

Total external debt stood at $18.6 billion at the end of 1992, or equal to 23 percent of GDP. As recently as 1989, the external debt represented 39 percent of GDP. Portugal's debt is well structured and can be comfortably serviced. Large international reserves, and the ability to raise resources in the international capital markets on favorable terms, will enable Portugal to manage its balance of payments deficit. In May 1993, a leading international credit rating service upgraded Portugal's credit rating from A to AA. Portugal is an aid donor nation and closely follows development issues in its former African colonies.

5. Significant Barriers to U.S. Exports

As of January 1, 1993, all barriers to trade, capital flows and labor mobility between Portugal and its EU partners were eliminated. Most barriers to U.S. exports, therefore, are common to all EU member states.

Policymakers see foreign investment as a crucial pillar in building a more competitive economy. The government offers a very generous package of incentives to investors (including to 100-percent, foreign-owned subsidiaries). The package of incentives can range from 25 to 70 percent of the total investment. However, private and foreign participation is restricted or excluded in some sectors, including sewage treatment, postal, transportation and water.

Portugal follows EU directives for standards, testing, labeling and certification. The Portuguese Quality Institute establishes national standards and implements EU 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 EU 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. Portugal's list of entities covered by the Government Procurement Code was accepted by the GATT in July 1993.

Quantitative import restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines from certain countries.

6. Export Subsidies Program

Portugal has no programs designed to directly subsidize its exports. However, EU 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 adequate. The government is improving enforcement, but small-scale copying 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 10 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. *The 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 Intersindical (CGTP–IN) is linked to the Communist party. It was expected to make its entry into the European Trade Union Confederation (ETUC) in 1993, but this did not occur, partly as a result of conflicts within the CGTP itself. The General Union of Workers (UGT) is a pluralist, democratic federation affiliated with the International Confederation of Free Trade Unions and the ETUC.

b. *The Right to Organize and Bargain Collectively.*—Unions are free to organize without government or employer interference. Collective bargaining is guaranteed by the Constitution and practiced extensively in the public and private sectors. When collective bargaining disputes lead to prolonged strike action in key sectors, 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 nine years of compulsory schooling takes effect on January 1, 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 was last adjusted on January 1, 1993, and 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 30 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 75,000 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. *Rights in Sectors With U.S. Investments.*—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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		379
Food & Kindred Products	129	
Chemicals and Allied Products	149	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	2	
Electric & Electronic Equipment	62	
Transportation Equipment	−8	
Other Manufacturing	(1)	
Wholesale Trade		318
Banking		207
Finance and Insurance		(1)
Services		177
Other Industries	(2)	(2)
TOTAL ALL INDUSTRIES		1,160

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ROMANIA

Key Economic Indicators

[Billions of Romanian lei unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)[2]	632	531	520
Real GDP Growth (pct.)	−13.7	−15.4	−2.1
GDP (current prices)[2]	2,110	5,982	17,739
By Sector:			
Agriculture	385	1,130	3,351
Manufacturing	920	2,674	7,929
Construction	105	261	774
Financial Services	49	312	924
Trade	179	790	2,343
Transport and Telecommunications	96	383	1,134
Research and Data Processing	66	105	311
Social and Cultural Services	123	271	802
Communal Services	71	151	448
Administration and Defense	79	195	579
Net Exports of Goods and Services (mill. US$)	−1,184	−1,463	−1,296
Real Per Capita GDP (current US$, World Bank est.)	1,208	1,370	N/A

Key Economic Indicators—Continued

[Billions of Romanian lei unless otherwise noted]

	1991	1992	1993[1]
Labor Force (000's)	10,840	10,919	10,458
Unemployment Rate (pct.)	3.4	8.4	9.5
Money and Prices (annual percent growth unless noted):			
Money Supply (M2, bill. lei)	1,025	1,856	3,625
Base Interest Rate[3]	12	52	80
Personal Saving Rate	10	40	70
Retail Inflation	223	210	250
Industrial Wholesale Inflation	584	417	205
Consumer Price Index	266	200	248
Exchange Rate ($/lei):.			
Official (avg.)	60	325	761
Inter-bank Auction (avg.)	198	325	761
Private Exchange House (avg.)	270	410	853
Balance of Payments and Trade (millions of U.S. dollars unless noted):			
Total Exports (FOB):[4]			
Ruble Zone (mill. ruble)	829	89	12
Hard Currency	3,520	4,286	4,280
of which to U.S	121	84	39
Total Imports CIF:[4]			
Ruble Zone (mill. ruble)	575	147	10
Hard Currency	5,146	5,886	5,874
of which from U.S	184	223	202
Trade Balance:[4]			
Total Ruble Zone (mill. ruble)	254	−58	−2
Total Hard Currency	−1,626	−1,601	−1,594
Balance with U.S	−63	−139	−163
Aid from U.S	16	20	21
Aid from Other Countries	126	156	180
External Public Debt	2,344	4,621	5,245
Debt Service Payments (paid)	30	186	369
Gold and FOREX Reserves (net)	270	−55	−68

N/A—Not available.
[1] 1993 Figures are estimates based on monthly data available in October 1993.
[2] GDP at factor cost.
[3] Figures are average annual nominal interest rates offered by financial institutions.
[4] Merchandise trade.

1. General Policy Framework

With a population of 23 million, a highly educated work force, and substantial exploitable natural wealth, Romania offers a potentially lucrative market for U.S. trade and investment. For the near term, however, Romania's purchasing power will remain constrained by such factors as the disruptive effects of economic reform, the impact of worldwide recession, the scarcity of hard currency, and relatively weak domestic economic performance. Romania is one of the poorest countries in Europe, and its economy has been declining over most of the post-December 1989 period. Since mid-1993, there have been signs that the decline has been arrested. However, growth is expected to be uneven into 1994, and the possibility of occasional setbacks cannot be excluded. Much will depend on export performance, the inflow of development assistance from international financial institutions, and the level of direct foreign investment.

Although state ownership of most means of production continues four years after the overthrow of communism, Romania is committed to creating a market economy. Steady (if slow) progress has been made toward that end. Eighty percent of the country's arable land has been returned to private farmers (although actual land titling has lagged behind), and a 30 percent nominal ownership stake in some 6,000 industrial enterprises has been transferred to all adult citizens via the distribution of shares in each of five private ownership funds. Ambitious plans exist for the pri-

vatization of these 6,000 state-owned firms, although fewer than 300 had been privatized by the end of October 1993. Greater progress has been made in auctioning off stand-alone "assets" of larger enterprises.

Progress has been more visible in the non-state sector which now is believed to contribute 15 to 25 percent of GDP. Some 275,000 private commercial businesses (25,000 involving foreign capital) and 213,000 sole proprietorships and family businesses have been formed since mid 1990. These are concentrated in the services sector and, in the case of the commercial businesses, typically employ fewer than 10 persons.

The reintegration of Romania into world markets is a central feature of Romanian foreign economic policy. Romania now is an associate member of the European Union (EU) and of the European Free Trade Association (EFTA). However, special emphasis has been placed on shoring up bilateral economic relations with the United States. As a result of the restoration of Most-Favored-Nation (MFN) tariff status with the United States in November 1993, the signing of a Bilateral Investment Treaty, and the return to Romania of the U.S. Export-Import Bank and Overseas Private Investment Corporation (OPIC) in 1992, prospects for expanded bilateral trade and investment have improved markedly.

Subsidies to industry, the high cost of energy imports, and increasing demands for social programs to mitigate the pain associated with restructuring the economy have made it difficult for the government to hold the budget deficit within the target of 5 percent of GDP, a central element in discussions with the IMF on a 1993 Standby Agreement. The deficit target for 1994 is 4 percent of GDP. An 18 percent value added tax (introduced in July 1993) and a salary tax presently provide 48 percent of central government revenues. The government plans to rely increasingly on securities issuance to cover the deficit. Monetary policy is driven by commitments accepted in return for assistance from the IMF and World Bank and can be characterized as cautious to restrictive. Tools used by the central bank to control the money supply include a ceiling on credits, adjustment of the discount rate (via the interbank auction), and the volume of treasury bills.

2. Exchange Rate Policies

Since November 1991, the National Bank of Romania (the central bank) has sought, with varying degrees of success, to institute a system of limited internal convertibility. Under the present regime, there is a unitary rate (pegged to the U.S. dollar), which is determined via a closed daily inter-bank "auction". While the rate currently could not be classified as a clearing rate, authorities have indicated to IMF officials that the exchange regime will be fully liberalized in early 1994. In the interim, efforts will be made to introduce greater transparency into the system.

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 for local currency. However, this practice was abandoned in May 1992, and government officials repeatedly have stated that it will not be reimposed. 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

Economic reform has required new laws in virtually every field: commerce, privatization, copyright, trademark, patent, banking, labor, foreign investment, environment, taxation, and social security. Laws reforming most sectors have been promulgated already or exist in draft status. Romania opened negotiations for a new protocol of accession to the General Agreement on Tariffs and Trade (GATT) in 1992. 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, a competition law, legislation on ownership of properties nationalized during the communist era, and clarification of the real property ownership rights of foreign juridical persons. A modern copyright law, developed in close consultation with Western experts, was introduced into Parliament in November 1993, and passage was expected by year's end.

Pricing and tax policies generally are favorable to trade. Except for some pharmaceuticals, some forms of public transportation, and residential heat and energy, consumer price subsidies were eliminated in May 1993. Likewise, few prices remain subject to government control. Romania's Foreign Investment Law (April 1991) pro-

vides incentives for foreign investment, and a U.S.-Romania Bilateral Investment Treaty (effective January 1, 1994) provides protection for U.S. investments.

As noted above, the major sources of central government revenue are the value added tax, a tax on salaries (not income), and a profits 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 profits tax. Individuals may fare better by earning more non-salary income to reduce their liability under the progressive personal income tax. Customs duties range from two percent to 100 percent; the weighted average is 30 percent. A 30 percent surcharge is applied to luxury imports (i.e., tobacco, alcohol, cosmetics, automobiles, and consumer electronics with the exception of color television receivers). Adjustments to the structure of the tariff schedule will be required to bring Romania into harmony with the European Union. As a result, differential rates will favor imports from the EU. 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-technology products and agricultural raw materials.

4. Debt Management Policies

In an effort to reduce foreign influence, during the 1980's, former dictator Nicolae 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 1993 loan commitments totaled approximately $5.2 billion. Disbursements amounted to $3.2 billion.

Romania signed a Standby Agreement with the IMF in May 1991, which provided for $500 million in balance of payments assistance plus up to an additional $400 million in contingency and compensatory assistance. This program was terminated in February 1992 by mutual agreement when, as a result of the build-up of debt among state-owned enterprises (essentially, soft supplier credits), it became evident that Romania would be unable to meet the target on monetary growth. Another Standby Agreement was negotiated in May 1992, providing for assistance totaling $440 million. This program also was terminated by mutual agreement before the final tranche of assistance had been drawn. Negotiations for a third program began in March 1993 and still were in progress at the end of November 1993. Assuming successful conclusion of the negotiations, implementation of the third standby would likely begin in the spring of 1994.

Since July 1991, the World Bank has approved loans totaling $950 million, including a $400 million Structural Adjustment Loan. Since December 1989, the Group of 24 (G–24) countries have pledged $4.5 billion in loans (17 percent of the total) and grants for development assistance. Of this amount, $750 million has been for balance of payments support. Disbursements did not begin until 1992. Support levels have continued to increase, but at a declining rate of growth.

Seventy-two percent of the official (i.e., noncommercial) loans to Romania since December 1989 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 to the Embassy. Roughly half of Romania's export earnings in 1993 were used to finance current energy imports. Debt service amounted to 8.6 percent of exports and 1.7 percent of GDP in 1993. The debt service burden will increase in 1994 as payments come due on Romania's first IMF Standby Agreement.

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, although the Embassy has been made aware of one incident in which procurement regulations apparently were intentionally drafted in such a manner as to effectively exclude a major U.S. pharmaceuticals company from the market for one product line. The government generally makes a good faith effort to assist, where appropriate, in the resolution of occasional trade disputes involving U.S. and Romanian firms. However, the process tends to drag on, as illustrated by the experience of one U.S. firm which so far has failed in two years to resolve a payment dispute in which the government concedes the U.S. firm appears to be in the right.

More commonly, impediments to bilateral trade and investment arise from cultural differences or the transitional nature of the reform process, or are rooted in attitudes and practices carried over from the days when Romania operated as a centrally planned economy. Chief concerns include:

Difficulty in concluding contracts: Lack of experience in western business methods; rapidly changing laws and a dearth of legal specialists to interpret their commercial implications; frequent shuffling of persons of authority in both government and industry hierarchies; and the slow demise of the old custom of smoothing the path through personal contacts—or offer of gratuities—have frustrated U.S. exporters and investors in concluding contracts. U.S. companies have commented frequently that Romania requires 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 it was under the Ceausescu regime, still plays an important role in Romania's trade strategy.

High cost of doing business: For a country with relatively 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 ten most expensive European cities by the year 2000.

Lack of support services: Measurable improvements have been made over the past two years in the availability of telecommunications equipment, office equipment, and computer hardware and software. However, the provision of more mundane goods, including foodstuffs, tends to be irregular, and western concepts of service are not yet fully rooted. Most equipment has to be imported, and maintenance costs are high. Many traders and investors report that the absence of a modern banking system impedes the conduct of business, and many express concern that medical care available to the expatriate business community is below western standards.

Investment barriers in Romania are few. The foreign investment law allows up to 100 percent foreign ownership of an investment project (excluding land), and there are no legal restrictions on the repatriation of profits and equity capital. Government approval of a joint venture is required, but to date this has not impeded the formation of such ventures. Although Romania lacks a one stop investment service, assistance in matching potential foreign investors with Romanian partners is provided by the Romanian Development Agency.

The Romanian constitution prohibits foreign ownership of land. However, the government has sought (so far unsuccessfully) 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 24,849 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-scale; 99.7 percent of the foreign investors together account for only 30 percent of the total capital investment. U.S. company investments run the gamut from multi-million dollars to a few hundred dollars, but are increasing in both volume and value terms. As of October 1993, U.S. investments ranked third (after Italy and France) in value terms (about $75 million), while in number of joint ventures (1,401), the United States ranked sixth. The largest U.S. investors are Coca-Cola, Amoco, Colgate-Palmolive, Pepsi, and MBH Furniture Industries.

6. Export Subsidies Policies

The Romanian system does not provide outright export subsidies but does attempt to make exporting attractive to Romanian companies. For example, 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. 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.

Generally, there is no licensing requirement for exports, but Romania does prohibit or control the export of certain strategic goods and technologies. For example, on occasion the government has banned the export of various foodstuffs due to domestic shortages. Export controls on imported or indigenously produced goods of proliferation concern also exist.

Romania is not a signatory to the GATT subsidies code or government procurement code, but has indicated its intention to subscribe to both codes.

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 have been, or 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 place in 1994.

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, but most appear to be imported. The Embassy is not aware of pirated goods being produced in Romania for export.

8. Worker Rights

a. *The 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, although some courts have increasingly ruled against striking unions. 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.

In addition to dissatisfaction with recent court rulings on strikes, 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. The Romanian government has not yet acted on the ILO recommendations.

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 11 million working people are members of about 18 nationwide trade union confederations and smaller independent trade unions. The largest is the National Confederation of Free Trade Unions-Fratia (CNSLR-Fratia). 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 1993, 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. Following CNSLR'S merger with Fratia in June, the former sought affiliation with ICFTU.

At its 80th session in Geneva in June, the ILO received a report from its Committee of Experts concerning Romanian compliance with ILO conventions. Although the Committee generally was satisfied with Romanian compliance, it underscored the need to increase measures to ensure a discrimination-free work place for the country's ethnic minorities, particularly for gypsies, and sought additional information on the status of women in the work place.

b. *The 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 1993.

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 Ministry in 1993, 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, although employers' financial difficulties often result in nonpayment of wages or postponement of payment.

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. Enforcement is not good, however. The MOLSP lacks sufficient, trained personnel for inspection and enforcement, and employers generally ignore their recommendations. Some labor organizations have pressed for healthier, safer working conditions on behalf of their members. In general, however, 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 achieve significant improvements in health and safety conditions in the work place.

f. *Rights in Sectors With U.S. Investment.*—The Embassy 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 a through e above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		19

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

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

RUSSIA

Key Economic Indicators

[Billions of rubles unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1990 prices)[2]	522	459	409
Real GDP Growth (pct.)	−12.9	−18.5	−11
GDP (at current prices)[2]	1,300	19,992	165,000
Production of Goods	1,074	18,887	N/A
Production of Services	226	1,105	N/A
Market Services	116	309	N/A
Non-market Services	110	796	N/A
GNP Per Capita (US$, IBRD est.)	3,220	N/A	N/A
Labor Force (000's)	73,809	72,300	N/A
Unemployment Rate (pct.)	0.1	0.8	N/A
Money and Prices (annual percentage growth):			
Money Supply	N/A	649.9	[4]251.6
Central Discount Rate (pct.)[3]	20	80	210
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation (pct.)	277.0	2,539.0	[4]643
Wholesale Inflation:			
Industrial	238.0	2,049.0	[4]975
Agricultural	156.0	931.0	[4]851.0
Consumer Price Inflation	260.0	2,609.0	[4]625.0
Exchange Rate (Rubles per $)[3]	1.67	414.5	[4]1,186.0
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)[5]	50,911.1	39,967.4	40,000.0
Exports to U.S	N/A	639.9	1,338.2
Total Imports (CIF)[5]	44,473.0	34,981.3	18,000.0
Imports from U.S	N/A	2,883.7	1,343.4
Aid from U.S	N/A	358.4	467.1
Aid from Other Countries	N/A	1,500.6	1,952.9
External Public Debt	N/A	70,000.0	72,000.0
Debt Service Payments (paid)	N/A	1,815.0	2,000.0
Gold and FOREX Reserves	N/A	3,518.0	6,000.0
Trade Balance[5]	N/A	4,986.1	22,000.0
Balance with U.S	N/A	−2,189.8	−5.2

N/A—Not available.

[1] Figures are from State Statistical Committee and embassy estimates; 1993 figures are estimates based on available monthly data in October 1993.
[2] GDP at factor cost; 1990 GDP was 644 billion rubles.
[3] Figures are actual, end of period.
[4] Money supply is through 8/93; other figures through 10/93.
[5] Merchandise trade.

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, natural gas, minerals, and fertile soil. After the collapse of the Soviet Union in October 1991, however, Russia was left with serious economic problems stemming from decades of a planned economy and the disruption of its traditional commercial and industrial ties. GDP fell by 13 percent in 1991, 19 percent in 1992, and a further 11 percent in 1993, for a cumulative decline of 37 percent, greater than that experienced by the United States during the great depression.

Industrial production dropped dramatically in 1992 and 1993 as Soviet-era supply lines across new national borders were disrupted, defense orders plummeted, and low import duties exposed Russian products to foreign competition, particularly among consumer goods. Largely because of the efforts of Minister of Finance Boris Fedorov, the government made progress in controlling the amount of state credit made available to state enterprises in 1993. However, as in 1992, enterprises contin-

ued to lend to each other, thus maintaining output and employment while accumulating a large amount of inter-enterprise arrears, since ultimately much of the production went unsold.

The year 1993 also saw the final dissolution of the "ruble zone." Following the July 26 Central Bank decision to withdraw old ruble notes from circulation, other republics of the Commonwealth of Independent States (CIS) moved to establish their own currencies. The collapse of the CIS ruble zone helped bring the currency under Central Bank control, and reduced inflationary pressures from other republics. Still to be solved, though, was the question of establishing a payments mechanism that would facilitate rather than hinder market-based trade between the new CIS states. An Interstate Bank was established in December 1993 to tackle this problem.

By the beginning of 1993 Russia had freed prices on 85 percent of wholesale and retail goods, and remaining controls on energy, housing, transportation and some other products were eliminated during the course of the year. The often dramatic increases in formerly controlled prices and the continuing inflationary impulse of domestic credit expansion made inflation reduction a top government priority. Under pressure from the Ministry of Finance, the Central Bank raised its discount rate in several stages to 210 percent in 1993 from the 1992 level of 125 percent, and tightened issuance of discounted credits. By the end of 1993 inflation was down to a monthly level of 15 percent.

To cut the budget deficit, the government in 1992 slashed expenditures on defense procurement, investment, and industrial and consumer subsidies, while introducing a 28-percent value-added tax, which was lowered to 20 percent in 1993. Export taxes and licensing fees, intended to offset the differential between low domestic prices and world market prices for energy and other raw materials, also yielded revenue. The budget deficit for 1993 was 10 trillion rubles despite extensive cuts in subsidies. A significant amount of taxable income goes unreported. The government in late 1993 announced plans to limit monetary financing of the budget deficit by creating a domestic market for government paper and bonds.

The government's privatization program, initiated in August 1992, continued to expand in 1993. Roughly half of Russia's medium and large state enterprises and 67 percent of small enterprises were privatized by the end of 1993; a growing number of large enterprises were being auctioned. The two-step process places the capital of a state enterprises on a share basis and then privatizes part or all of the ownership. The enterprise's managers and employees can receive 25 percent of the shares free and purchase up to an additional 15 percent. More frequently they elect instead to purchase a full 51 percent at discounted prices. The local state property committee, and in some cases the central government, typically retains a 20–30 percent stake; the remaining shares are auctioned publicly for vouchers or cash. One-third of the investment vouchers distributed to Russian citizens in October 1992 have been invested; the vouchers are currently valid to July 1994. Foreign investors have access to the public shares through investment funds or can purchase vouchers directly. A September 1993 land decree permitted the sale of agricultural land among Russian citizens. High percentages of urban residential units have been privatized and can be sold on the market. In Moscow 90 percent of residential property was privatized by the end of 1993. Foreigners still cannot purchase real estate in Russia but can lease it for 50 years and sometimes longer.

A bankruptcy law passed in March 1993 provided the basis for several test cases in the courts. In December 1993 President Yeltsin signed a decree outlining criteria and procedures for reorganizing and eliminating unprofitable state enterprises through mandatory bankruptcy proceedings. To avoid bankruptcy proceedings, such enterprises must prove they have state orders, subsidies or private financing. This step represents a significant implementation of the new bankruptcy law. An initial list of 100 enterprises slated for bankruptcy was being prepared at the end of 1993.

U.S. direct foreign investment commitments in Russia totalled $500 million in 1992, 14 percent of total foreign investment in Russia. Other leading investors were Germany, Italy, Austria and France. U.S. direct foreign investment in 1993 is estimated at $1 billion, comprising 15–20 percent of worldwide direct investment in Russia. The U.S.-Russian bilateral tax treaty, which goes into effect from January 1994, eliminates double taxation of U.S. citizens and firms, while the bilateral investment treaty signed in June 1992 awaits ratification by the Russian legislature.

Russian exports, concentrated in raw materials, totalled $40 billion in 1992 and again in 1993, although with falling commodity prices export volumes increased in 1993. As a result of the massive decline in GDP, imports fell from $35 billion in 1992 to $18 billion in 1993, increasing Russia's trade surplus from $5 billion to $22 billion. Germany ranked first as Russia's leading non-CIS trading partner in 1993,

followed by China, the United States, France, Japan and Britain. Trade with former allies in Eastern Europe continued to fall.

Russia became a member of the International Monetary Fund in June 1992 and made a first credit tranche drawing of $1 billion in December. In July 1993, Russia borrowed a further $1.5 billion from the IMF under the new Systemic Transformation Facility. The borrowing was intended to support a program of tighter limits on credit expansion and a reduced budget deficit. However, Russia was unable to meet its third quarter targets as a result of credits issued for the harvest and for winter provisioning of the Russian northern territories. Renewed stabilization policies were implemented during the fall, opening the way for a second $1.5 billion STF drawing envisioned for early 1994 to be followed by a $4 billion upper credit tranche standby program.

In 1993 the World Bank approved a $610 million loan for oil sector rehabilitation, which became effective in November. A $90 million loan for privatization assistance, approved in 1992, became effective in December 1993. The World Bank has also proposed an additional $70 million loan for federal employment assistance. Disbursements in 1993 on a previously approved import rehabilitation loan totalled $350 million.

The international program of technical and humanitarian assistance, begun in 1992, became increasingly active in 1993. The United States is the largest source of technical assistance and funding. The Group of Seven in 1993 established a support implementation group (SIG) in Moscow and will open its office in 1994. The IMF, World Bank and European Bank for Reconstruction and Development (EBRD), which opened offices in Moscow in 1992, have active technical assistance programs and provide funding in various areas. The International Financial Corporation has focused its assistance activities on the privatization program. The European Community has begun to mobilize an assistance program, and individual countries have established bilateral programs.

Differences in income distribution have widened steadily in the uneven transition to a market economy. On the one hand, a class of wealthy entrepreneurs has begun to emerge; on the other, many have experienced a decline in living standards, although official unemployment levels have remained below one percent.

Much unemployment and under-employment remains hidden. Enterprises have increasingly reduced the work week and compelled employees to take annual leave. Some employees have acquired second jobs to supplement reduced real wages. The government has sought to keep social welfare support in line with the cost of living, but many pensioners have slipped below the poverty line. Welfare responsibilities jettisoned by enterprises in the course of privatization have usually devolved upon regional and local governments.

2. Exchange Rate Policy

Russia has a unified exchange rate which floats based upon a daily Moscow interbank currency exchange auction where the central bank intervenes to smooth fluctuations. After declining rapidly in nominal terms through mid-June the ruble held steady at about 1000/dollar until the siege of the parliament. The ensuing political turmoil caused a sharp downward correction of about 20 percent, after which the rate again stabilized. In practice, the central bank exerts considerable influence on the rate due to the continuing large reserve accumulation resulting from surpluses in Russia's trade accounts. The ruble is convertible within Russia and CIS countries which remain in the ruble zone. Capital flight remains a problem. Exporters are required to convert into rubles 50 percent of export earnings at the free market rate. From January 1994 commercial banks will be responsible for monitoring the repatriation of export earnings.

Without special permission it is illegal for Russian companies or citizens to maintain bank accounts outside of Russia for purposes other than operating expenses. Licenses are required for offshore accounts and can be difficult to obtain. Non-residents can open individual ruble accounts and commercial ruble accounts for servicing import/exports operations and for investment. Both citizens and non-residents can maintain domestic hard currency accounts.

3. Structural Policies

The Russian legal system is in a state of flux but continues to make progress toward a market economy having transparent pricing, tax and regulatory policies.

Legal Framework: Russia's rudimentary antitrust law was supplemented in December by a new tax and anti-monopoly law passed by presidential decree. A similar November 1993 decree implementing the law on protection of shareholders requires larger companies to establish stock registries to record ownership in the company. Also in preparation are a brokerage law facilitating trading of stocks through bro-

kers rather than through the company. The government is working on a commercial code. One-third of Russian commercial banks have substantial government ownership and the largest banks are still government-owned. Russia still lacks a corporatization law.

Pricing policies: Despite the continuing privatization of larger enterprises, key sectors such as energy and transport remain in state hands. The Ministry of Economy, formerly GOSPLAN, retains some of its former managerial functions for certain sectors of the economy. Centralized imports and import subsidies were eliminated in 1993 on all items except a handful of products, and the remainder are expected to be phased out in 1994. In late 1993 the government reduced export duties and curtailed the number of exports subject to quotas and licensing. State procurement plays a limited and declining role for non-defense industries, and production subsidies have been abolished in most sectors, including foodstuffs. Energy and rail transportation prices were decontrolled in 1993 and have risen sharply.

Tax Policies: Russia's tax system, established in December 1991, has been rendered obsolescent by the de facto transfer of substantial federal responsibilities to the regions, expected to be codified in a new tax law in 1994. All major taxes are collected by a single federal agency and redistributed among the regions through an ad hoc bargaining process which attempts to accommodate this transfer of responsibilities. A new tax law in preparation is intended to reflect the increased regional responsibilities by making their collections independent of the center. The value-added tax is imposed on Russian and foreign firms conducting commercial activities in Russia. Placed on a sliding scale ranging between 25 and 35 percent by region in 1992, the tax was reduced to a uniform 20 percent in 1993. Corporate profits are taxed at a rate of 32 percent. A December 1993 presidential decree raised personal income tax rates for 1994; income below five million rubles per year will be taxed at 12 percent, income between five and ten million rubles/year at 20 percent, and income over ten million rubles/year at 30 percent.

Regulatory Policies: All enterprises above 100 million rubles capitalization ($85,000 as of 12/93) must be registered with the government, which can involve extensive delays. Exports of energy and several other raw materials require a license, for which foreign investors are permitted to bid. The government has only recently begun to introduce auction tenders for official procurements. Noncompetitive bidding is sometimes used to award contracts for very large government projects involving natural resources. Cases exist of tenders awarded to U.S. companies being subsequently revoked by the government in the interests of domestic competitors. An established and transparent set of regulations regarding bidding is lacking, but a law on concessions for development of raw reserves is in preparation.

4. Debt Management Policies

Russia and the other former republics of the USSR 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. Russia subsequently reached agreement with the other republics to manage or assume liability for their respective share of the Soviet debt in exchange for their relinquishing their respective claims on Soviet assets.

Russia has succeeded in gaining significant temporary relief from its debt burden during the transition to a market economy. An April 1993 agreement with government creditors (Paris club) rescheduled virtually all of Russia's official bilateral debt arrears and maturities falling due in 1993. By December 1993 Russia had reached bilateral agreements with most major creditor governments to implement the April 1993 accord. The April accord requires that Russia obtain comparable debt relief from its other main groups of creditors. Negotiations with London Club creditors to reschedule commercial bank credits resulted in agreement in principle but stalled in late 1993 over the issue of Russia's refusal to waive sovereign immunity. Pending conclusion of an agreement, the Russian government is setting aside money in the budget for debt servicing payments to the banks. Russia also has proposed formation of a creditors club for rescheduling uninsured supplier credits.

The total external debt is estimated to be approximately $72 billion dollars. Servicing of the debt in 1993, after rescheduling, was about $3 billion. In order to ensure control of contracting for new foreign lending, the Russian government has formed an inter-ministerial committee to limit the amount of borrowing.

5. Significant Barriers to U.S. Exports

The 1992 U.S.-Russia Trade Agreement provides mutual most-favored-nation status. Russia remains subject to the Jackson-Vanik Amendment which conditions extension of MFN status upon conclusion of a bilateral commercial agreement and compliance with, or waiver of, freedom of emigration requirements found in the law. In 1993 President Clinton continued a waiver for Russia from the freedom of emi-

gration requirements of Jackson-Vanik, which has been continued annually since first being issued for the Soviet Union in 1990.

Russia is negotiating or has concluded limited free-trade agreements with CIS states and former East European satellites. Some of these involve barter or guaranteed delivery of specified commodities. The U.S. Russia Business Development Committee and its working commissions, established in June 1992, provide a mechanism for resolving particular trade problems on both sides. Russia and the European Union have been involved in the negotiation of a Partnership and Cooperation Agreement which would liberalize trade between them.

The June 1993 Customs Code, which offers 15 alternative regimes for handling external trade, standardizes Russian customs procedures in accordance with international norms. The Tariff Law promulgated in July 1993 establishes types of duties and provides for establishing preferential tariffs on a reciprocal basis. Implementation of the new customs regime has occurred gradually and unevenly, and is still subject to arbitrary decisions. In December 1993 the United States and Russia implemented a 1990 Mutual Customs Assistance Agreement. The government plans to raise import duties across the board in 1994; although many duties will be below ten percent, the expected weighted tariff will be 13–14 percent, with some exceeding 25 percent.

Inherited Soviet-era qualitative restrictions on imports were initially limited to security and health requirements, but Russia's July 1993 Consumer Protection Law stipulated official certification (by Gosstandart) of imported products for conformity to Russian technical, safety and quality standards. Certification is based on a combination of international and Russian standards. U.S. companies have complained of costly procedures and arbitrary certification requirements. A joint Russian-U.S. communique of December 1993 pledges cooperation on improving and simplifying certification, testing and quality assurance of U.S. and Russian products in each other's markets. Russia is establishing reciprocal standardization with the U.S. and other countries and acceptance of foreign certification by accredited institutions. Import licenses are required on the normal range of dangerous and harmful materials and goods.

A November 1993 presidential decree freezing registered foreign bank activity and barring new entry of foreign banks with less than 30 percent Russia ownership appears to conflict with a September 1993 decree sheltering foreign investors from adverse changes for three years and contradicts the foreign banking law. Under current law only 12 percent of the total capital in the banking system can be foreign-owned. The Russian insurance industry is lobbying for similar protection, and the government recently circulated proposed regulations prohibiting foreign attorneys from counseling clients on Russian legal matters.

6. Export Subsidies Policies

From July 1992 exports of oil, gas, precious metals and other strategic raw materials were conducted by enterprises specially licensed by the Russian government. In 1993 a quarter of these exports were re-centralized through government-controlled foreign trade organizations and involved domestic purchase below world prices and exemption from export taxes.

Antidumping duties imposed by the U.S. Department of Commerce on Russian uranium in early 1992 were suspended in October 1992 in return for export restraints. U.S. antidumping duties remain in place on imports of Russian ferrosilicon, titanium sponge, and urea. A request for information under Section 406(d) of the 1974 Trade Act has also been sent to Russia regarding the production and export of potash. A surge of Russian aluminum exports to western markets contributed to record low real aluminum prices and was the subject of multilateral talks.

7. Protection of U.S. Intellectual Property

In 1992–93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings.

The Patent Law, which accords with the norms of the World Intellectual Property Organization, includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. One must wait four years before applying for a compulsory license.

The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins and provides for automatic recognition of Soviet trademarks upon presentation of the Soviet certificate of registration. The Law on Copyright and Neighboring Rights, enacted in August 1993, protects all

forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years and is compatible with the Bern Convention. The September 1992 Act on Topology of Integrated Microcircuits protects semiconductor topographies for ten years from the date of registration.

Russia has acceded to obligations of the former Soviet Union toward the Universal Copyright Convention, the Paris Convention, the Patent Cooperation Treaty, and the Madrid Agreement. Further, under the unratified U.S.-Russian Bilateral Investment Treaty, Russia has undertaken to protect investors' intellectual property rights, and the bilateral trade agreement obligates protection of the normal range of literary, scientific and artistic works through legislation and enforcement. Russia does not belong to the Rome convention and protects only sound recordings first produced in Russia. Still ahead are a comprehensive revision of the Russian criminal and civil codes and of administrative regulations pertaining to intellectual property rights; strengthened penalties; the establishment of specialized courts, particularly a patent court, with trained and experienced judges and attorneys, and trained police and customs officers. So far legal enforcement of property rights has been a low priority of the Russian government, as is evident in the widespread marketing of pirated U.S. video-cassettes, recordings, books, computer software, clothes and toys.

The Russian Intellectual Property Agency, established in 1992 with direct accountability to the Russian president, was given responsibility to develop and coordinate state IPR policy, promote copyright protection, and collect and distribute royalties. It was replaced in October 1993 by the revived Russian Authors Organization, a semi-official agency combining the inherited supervisory functions with advocacy of author's commercial interests.

8. Worker Rights

a. *The Right of Association.*—The Russian Labor Code guarantees the right to join trade unions. The Federation of Independent Trade Unions of Russia (FNPR), successor to the Soviet All-Union Central Council of Trade Unions (AUCCTU), enjoyed a privileged position until a September 1993 presidential decree transferred control of the Social Insurance Fund from the FNPR to the government, thereby neutralizing the key economic factor deterring workers from joining other unions. Unions may form federations and participate in international bodies, and are independent of political parties.

The Russian Labor Code qualifies the right to strike with several restrictions. It requires first exhausting other means of dispute resolution, prohibits strikes for political reasons and bars them altogether in the transportation, communications, energy and defense industries, and allows suppression of strikes deemed threatening public health or having severe social or economic consequences.

The government does little to protect workers actively from retribution. FNPR officials generally collaborate with enterprise management, while free union leaders and members face threats, intimidation and occasionally physical abuse, often with the acquiescence of FNPR officials and local politicians. In the past year, free union officials have scored moderate success in pursuing more aggressive judicial defense of their rights.

b. *The Right to Organize and Bargain Collectively.*—Unions remain concentrated in the state sector, where previously membership was mandatory. Because of the collaborative tradition of Soviet labor unions, collective bargaining is still largely misunderstood on both sides. Recently Russian courts have begun compelling management compliance with labor contracts.

c. *Prohibition of Forced or Compulsory Labor.*—Prohibited by the Russian Labor Code but largely unenforced or ineffective.

d. *Minimum Age for Employment of Children.*—Regular employment of children under age 16 is prohibited, although younger children may work in intern or apprenticeship programs. The Labor Code bars dangerous, nighttime and overtime work for children under 18.

e. *Acceptable Conditions of Work.*—Parliament sets the minimum wage, but given current inflation and budget deficits, most workers receive less than the minimum pension level. The standard work week is forty hours and the calendar week must contain one 24-hour rest period. Premium pay is required for overtime and holiday work. Minimum legal safety and health requirements continue to be widely ignored with impunity. Industrial death and injury rates are very high, especially in heavy industries such as mining.

f. *Rights in Sectors With U.S. Investment.*—In the petroleum, food and telecommunications industries where U.S. investment is significant, observance of worker rights does not differ significantly from other sectors. The petroleum industry is highly unionized but the official union remains predominant. U.S. joint ven-

tures in the telecommunications and food industries are less unionized but tend in some cases to enjoy better working conditions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		2
Banking		0
Finance and Insurance		0
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		16

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

SERBIA AND MONTENEGRO*

The United Nations imposed comprehensive economic sanctions on Serbia and Montenegro in May 1992 because of its support for aggression in Bosnia-Herzegovina. These sanctions have accelerated the economic decline already underway in the former Yugoslav republics. As a result, the economic crisis faced by the country is worsening steadily.

The war in Bosnia-Herzegovina is being financed largely by the Serbian government in Belgrade. This—plus unrestricted monetary expansion by the National Bank of Yugoslavia—is a major contributor to the hyperinflation now ravaging Serbia and Montenegro. The dinar had all but lost value as a means of exchange by the end of 1993, with the first dinar redenomination (six zeros were dropped in early autumn) unable to stem hyperinflation. The German mark had largely replaced the dinar by the end of 1993 as the primary means of exchange. An emergency government stabilization program also failed to stem hyperinflation, which had accelerated to approximately 120,000 percent by the end of December 1993, for an annual level in the quadrillions.

United Nations sanctions imposed against Serbia and Montenegro have created severe raw materials shortages for the manufacturing sector. Shutdowns and slowdowns are commonplace. Workers on forced leave are receiving unemployment compensation 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; increasingly, support of endangered segments (refugees, pensioners) of the population is required. The financial instability caused by the sanctions has effectively shut down banking operations. Although Serbia produces about one-third of its domestic oil needs, energy is not reaching the civilian sector in sufficient quantities to provide for adequate heating in winter. Industry limps along on domestic coal and electric power, but production is barely above minimum levels. While Serbia is largely self-sufficient in food production, energy shortages are now disrupting food distribution networks.

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

*Serbia and Montenegro have asserted the formation of a joint independent state, but this entity has not been formally recognized as a state by the United States.

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 run-down infrastructure will be a lengthy and expensive process, exacerbated by the recent emigration of young Serbian and Montenegrin professionals and workers. Loss of export markets will also help prolong economic misery faced by Serbia and Montenegro well into the future.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance and Insurance		0
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		(1)

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

THE SLOVAK REPUBLIC

Key Economic Indicators

[Billions of Slovak crowns (SK) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1984 prices)[2] [3]	191.3	177.9	190.0
Real GDP Growth (pct.)	−11.2	−7.0	−7.0
GDP (at current prices)[2]	282.3	270.0	322.0
By Sector:[4]			
Agriculture	16.0	15.3	N/A
Industry	168.7	151.3	N/A
Services	97.6	103.4	N/A
Net Exports of Goods and Services	120.1	N/A	N/A
Real Per Capita GDP (crowns)	36,165	33,516	35,849
Labor Force (000's)	2,850	2,764	2,347
Unemployment Rate (percent)	4.1	10.4	14.0
Money and Prices:[5]			
Money Supply (M2)	698.2	223.6	255.2
Base Interest Rate (pct.)[6]	13.16	13.38	14.71
Personal Saving Rate (pct.)	8.00	6.58	7.88
Retail Inflation (pct.)	61.2	10.0	25.0
Wholesale Inflation (pct.)	68.9	5.3	19.0

Key Economic Indicators—Continued

[Billions of Slovak crowns (SK) unless otherwise noted]

	1991	1992	1993[1]
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (SK per $):			
Official	29.57	28.26	32.09
Parallel	32.28	30.50	33.00
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB)[7]	3,438	3,624	4,725
Exports to U.S	28	47	44
Total Imports (CIF)[7]	3,597	3,564	4,750
Imports from U.S	41	58	68
Aid from U.S	19.29	28.51	N/A
Aid from Other Countries DN/A	N/A	N/A	
External Public Debt	N/A	2,322	2,800
Debt Service Payment (paid)	N/A	N/A	242
Gold and FOREX Reserves	N/A	790	1,170
Trade Balance[7]	−159	60	−25
Balance with U.S	−13	−11	−24

N/A—Not available.

[1] 1993 Figures are all estimates based on available monthly data in October 1993.
[2] GDP at factor cost; 1991 and 1992 figures estimated.
[3] In 1993 ESA method of measuring GDP replaced MPS method.
[4] In Slovak practice, industry includes energy, manufacturing, and construction; services include rents, financial services, and government services.
[5] 1991 Figures are for CSFR.
[6] Figures are actual, average annual interest rates, notchanges in them.
[7] Merchandise trade.

1. General Policy Framework

On January 1, 1993, the Slovak Republic formally began its existence, following the breakup of the Czech and Slovak Federative Republic (CSFR). The economic structure of the new Slovak state resembles that of the former state in many respects; assets and liabilities were divided between the two republics generally on a two-to-one basis and on a territorial basis where applicable. A monetary union between the two republics collapsed after less than two months, but a customs union providing for free movement of goods and services and prohibiting tariff barriers within the former CSFR remains in existence.

In addition to the ongoing difficulties of converting a centrally-planned economy which had specialized in heavy industry to a modern market economy able to compete in Europe, Slovakia also faced the strain of creating new government institutions (e.g., a central bank) with few trained and experienced personnel. Data collection and analysis are sometimes insufficient due to both resource and conceptual difficulties. Most of the competitive industry in the CSFR was located in the Czech Republic, as was most of the foreign investment and financial expertise. In consequence, unemployment is quite high in Slovakia. The once-powerful armaments industry now produces at less than ten percent of its 1988 level.

Slovakia has made clear its desire for EC membership at the earliest opportunity, and signed an EC association agreement in October 1993 (ratified the same month by the European Parliament and awaiting ratification from EC member states). The government adheres to EC standards wherever possible in modernizing infrastructure and legislation. Slovakia emphasizes its central location, skilled and low-cost labor force, industrial tradition, and familiarity with its eastern neighbors in advertising itself as a bridge between East and West for business.

The central government budget deficit was the subject of negotiation with the IMF; the government's deficit target was 16 billion Slovak crowns (SK), or seven percent of GDP in 1993. By November it appeared that this target would be reached, although off-budget items might increase the total by several billion SK. The deficit was caused both by insufficient tax revenues due to the creation of a new tax system, and by high levels of social spending judged to be a necessary response to the dislocations caused by the process of economic transformation. Still, the government has been trying to reduce the generous levels of social payments such as unemployment compensation. A new insurance system was established in January 1993, intended to become self-financing (and off-budget) in 1994; flaws in

the system contributed substantially to the budget deficit in the first half of 1993. The deficit was primarily financed by domestic banking sources, leading to a severe shortage of credit available to private sector borrowers. Borrowing from the IMF, World Bank, EBRD, and other international lenders was also significant.

Monetary policy was restrictive and aimed successfully at conserving foreign exchange resources and limiting inflation. The central bank (National Bank of Slovakia, or NBS) maintained a tight refinancing policy. The NBS tended to use the same instruments as had the federal central bank in 1992, mostly indirect controls. Reserve requirements remained stable; open market operations and currency swaps are little used, being at an undeveloped level. Banks themselves (16 are active in Slovakia) tended to purchase government securities as their liquidity increased, drying up credit available to private borrowers. The central bank intended to raise credit availability cautiously late in 1993.

2. Exchange Rate Policy

After the division of Czechoslovakia, the two successor republics hoped to maintain a monetary union for at least six months. This proved impossible and the two currencies separated on February 8. Czechoslovak banknotes with Slovak stamps remained valid until the phased-in introduction of newly-printed notes, which began in August. The Slovak crown is pegged to a basket of five international currencies under the supervision of the National Bank of Slovakia. The crown was devalued by ten percent on July 9; since that time it has remained stable at approximately 32 crowns to the dollar.

With respect to current account transactions, the crown is internally convertible for enterprises and may move toward full convertibility in the next year. Individuals may maintain hard currency accounts and are entitled to purchase 7,500 crowns' worth of hard currency a year for travel abroad. Companies registered in Slovakia may earn hard currency but must deposit it in crown accounts; they may purchase hard currency for business reasons, subject to some limitations (see section 5). Investors may keep their initial investment in hard currency and may repatriate 100 percent of their profits in hard currency.

3. Structural Policies

Restitution: The CSFR passed laws during 1990–92 governing return of private property seized by the government after February 1948. Deadlines for filing claims have expired, except in the case of religious community property, for which new legislation will take effect in January 1994. The new legislation includes provisions for restitution claims on Jewish community properties seized after November 2, 1938. The government also amended laws on agricultural restitution, permitting claims of up to 250 hectares of land (150 hectares for arable land). By the end of 1992, 107,842 restitution claims covering 144,976 hectares of land had been filed. Of this total, about two-thirds had been awarded to claimants by the end of 1992.

Privatization: Small-scale privatization began in 1991 and is nearly complete in Slovakia. Approximately 10,000 small enterprises, including 6,500 retail shops, have been privatized; privatization of urban housing was to follow in late 1993. The first wave of large-scale privatization began in 1991 and by September 1993, 703 enterprises valued at $5.3 billion had been privatized. Political and conceptual changes within the Slovak government, along with bureaucratic bottlenecks and difficulties in establishing ownership, have led to numerous delays in the second wave. The second wave, involving 635 enterprises valued at $6.3 billion, technically began in 1992 but will begin in earnest in 1994. The current government is pursuing a mixed approach to privatization which includes standard methods (direct sale, public auction, and public tender), and the voucher method, but on a smaller scale than in past years. The government is giving priority to attracting foreign investment, and has recently succeeded in increasing the pace of privatization. Establishment of land ownership has proved very complicated; most land was state-owned and is now administered by the Slovak Land Fund, and at present can be rented but not purchased. The contribution of the private sector to GDP was estimated at 28 percent at the end of 1993.

Commercial Code: The Code adopted in Czechoslovakia in 1992 remains valid in Slovakia. Key points for U.S. investors include a low level of government screening of foreign investment, other than for privatization of certain state enterprises; equal treatment with Slovak citizens for conducting business; and elimination of most restrictions on foreign investment. The United States—Czechoslovakia Bilateral Investment Treaty (BIT) of 1992 remains in force in Slovakia.

Taxes: Slovakia introduced a new tax system in January 1993, with modifications later in the year. Taxes are measured by the calendar year and consist of a Value Added Tax (VAT) of 25 percent on most items and six percent on basic foodstuffs

and essentials; an excise tax; personal income tax of 15 to 47 percent and corporate income tax of 45 percent; and taxes on real estate, auto registration, inheritance, gifts, etc. Measures were also taken to improve collection and increase penalties for evasion. Significant tax incentives exist for companies (especially banks) founded in Slovakia after December 31, 1992, depending on the location and level of foreign capital invested. The United States and Slovakia signed a dual-taxation treaty in October 1993 which will enter into force upon ratification by both countries.

Price liberalization: Nearly all (96 percent) price controls have been removed; controls on food, fuels, energy, heat, etc. remain but will be phased out by December 1995, with periodic administered price increases during the next two years to bring prices to market levels. Government-granted monopoly rights no longer exist.

Bankruptcy: Slovakia adopted the 1991 federal law on bankruptcy with additional amendments in June 1993. Under the law, a board of creditors formed by court recommendation may take control of enterprises in bankruptcy proceedings; the board has three months to work out a recovery program before liquidation occurs. At the end of 1992 unresolved claims of Slovak companies totaled 87 billion SK ($2.7 billion). About 12 percent of this amount had been settled by November 1993 via a new mandatory clearing system for enterprise debt (focused on companies in "secondary insolvency", i.e. those who could operate successfully if their debtors paid them). The problem of secondary insolvency has been an important hindrance to economic reform, complicating efforts to distinguish efficient companies from inefficient ones; the former find it difficult to operate or attract investment due to their unresolved claims, while the latter continue to receive government subsidies.

4. Debt Management Policies

Slovakia has a low level of foreign debt, about four-fifths of which is medium- and long-term. As of July 1993, gross foreign debt was $2.8 billion (roughly 28 percent of GDP), up from $2.3 billion in December 1992. Of this, about 40 percent represented debt incurred by domestic banks and enterprises and government obligations from former federal institutions accounted for the remainder. This is slightly above program targets set by the IMF. Slovakia inherited about 27 percent of the federation's external debt. Debt service payments are about 5.5 percent of exports. Slovakia holds claims of $1.6 billion on various countries around the world, but all bilateral repayment agreements were canceled prior to the dissolution of the federation. The former Soviet Union is by far the largest debtor, owing nearly $750 million (in non-convertible currency). Claims in convertible currency total $305 million. Payments to and from the Czech Republic are handled through an ECU clearing system.

Bad debts: Lack of data makes it difficult to quantify the serious problem posed by bad debts of the Slovak banking system. Much of the problem dates back several years to the Communist era. In 1991 Czechoslovakia established a Consolidation Bank to centralize debts and liabilities of the banking system, and subsequently the federal National Property Fund issued bonds to aid debt write-downs and bank recapitalization. Passage of the amended bankruptcy law in June 1993 should increase the transparency of the debt problem, along with the institution of a clearing system for inter-enterprise debt in October 1993.

Loan guarantees: Slovakia has significantly reduced its outlays on government loan guarantees, primarily for infrastructure projects; as a share of the budget these fell to 15 percent in 1993, down from 23 percent in 1992. The government hopes that commercial banks will be able to play a more active role in providing loan guarantees in 1994.

Adjustment Programs: In July 1993, the IMF approved a Systemic Transformation Facility (STF) of approximately $180 million, to be disbursed in two equal tranches for Slovakia. An IMF advisor is resident in Bratislava. The STF is designed to facilitate Slovakia's adjustment to the fiscal and external imbalance resulting largely from the end of fiscal transfers from the federal government in Prague, and to accelerate structural reform. The IMF is negotiating a $100 million Standby Arrangement for Slovakia. In November 1993, the World Bank approved a $80 million Economic Recovery Loan (ERL), which would act as a balance of payments stabilization fund. The Japanese intend to match that amount to provide balance of payments support and assist in the reform of the social safety net. The World Bank, the EBRD and the Slovaks have approved a $180 million telecommunications sector program, and the World Bank is considering additional loans for the financial, forestry, and energy sectors.

5. Significant Barriers to U.S. Exports

The principal impediment for exporters to Slovakia in 1993 was the existence of temporary financial regulations governing payments to foreign suppliers for prod-

ucts and services. The regulations, designed to check the outflow of scarce foreign exchange, permitted only a 15 percent initial payment and required a 90-day delay for payments over one million SK (roughly $31,000). Capital goods require supplier credits of one year or more. The regulations reportedly were eliminated at the end of 1993.

Import licenses: Import licenses are governed by the 1991 decree of the former Czechoslovak Ministry of Foreign Trade, which remains valid under Slovak law. The decree divides commodity items into "general" and "specific" categories for the purpose of licensing. For most of the approximately 100 groups of items in the "general" category, obtaining a license is a formality. In the remaining ten percent of cases (in which a favorable decision of the Ministry of Economy is required) obtaining a license may be more difficult, for reasons related to environmental concerns, existing quotas, etc.

Items in the "specific" category fall into three groups: pharmaceuticals, weapons, and COCOM items. In these cases a favorable decision from the Ministry of Economy is required. Among its criteria for decision the Ministry includes consideration of environmental and health factors as well as the impact on domestic producers.

Services: Permission from the National Bank of Slovakia (NBS) is required to offer banking services. Insurance companies must obtain a license from the Ministry of Finance. Permission from the Ministry of Finance is required for stock exchange services. Foreign entities are welcome to join existing stock and options exchanges, but no provisions exist under the 1992 law for establishing new exchanges. A license from the Chamber of Commercial Lawyers is required in order to provide legal services. Licenses may be granted to individuals and general partnerships, but not to limited liability companies. No special permission is required to offer travel or ticket services or air courier services.

Standards, testing, labelling, and certification: The Slovak Office of Standards, Metrology and Testing is the responsible office for reviewing a wide range of products. Both compulsory and voluntary testing are done at 16 testing centers under the direction of this office. Testing is compulsory for products in the "regulated" sphere, defined as those which may pose threats to health, life, safety, and the environment. This sphere consists mainly of foodstuffs, kitchen devices, medicines, electrical equipment, engineering products, agricultural machinery, plastics, paints, polishes, cosmetics, and sporting goods. Voluntary testing may be done at the request of the producer or importer wishing to obtain a certificate. Slovakia intends to introduce its own system of labelling by the end of 1993, replacing the old Czechoslovak system.

Investment: To date Slovakia has taken a very positive stance toward foreign investment, though procedural barriers exist. Foreign citizens may not own land in Slovakia, but may form legal entities in Slovakia which in turn are permitted to purchase land. There are no significant barriers to participation of foreign equity or personnel, repatriation of profits or capital, restrictions on downstream services, or lack of national treatment. The government has made clear that certain sectors (e.g., some telecommunications services) will not be privatized in the short run. It is too early to say with certainty whether considerations of employment or development of favored industries will adversely affect the interests of foreign investors.

Government procurement practices: No "buy Slovak" law exists, but the government is sensitive to the concerns of local producers whose existence is threatened by the pace of economic reform and the emergence of efficient competitors. The government has stated that in certain instances, the potential for local job creation will weigh heavily in judging bids for newly-privatized enterprises.

Customs procedures: Procedures are not intrinsically complicated or burdensome. The basic form required is the "Unified Customs Declaration" which conforms to EC standards. Occasional problems have arisen in individual cases, usually due to the unfamiliarity of one or more parties with the new procedures.

The Slovak Republic succeeded to Czechoslovakia's membership in GATT, and bases its foreign trade policy on GATT principles, including the GATT subsidies code. Slovakia is a participant in Uruguay Round discussions and in the following agreements: Multi-fiber Arrangement, Technical Barriers to Trade Agreement, Licensing Procedures Agreement, and Agreements on GATT Articles VI and VII.

6. Export Subsidies Policies

Slovakia is a member of the GATT subsidies code. The tariff schedule is inherited from the federation; rates are low and average about six percent. Imports from developing countries enjoy GSP preference. There are currently no direct subsidies for Slovak exports, though indirect subsidies exist in areas such as housing, agriculture, and energy. A proposal to impose an import surcharge of 20 percent was considered but not implemented in 1993.

7. Protection of U.S. Intellectual Property

The Slovak Republic is a signatory to the same conventions as the former Czechoslovakia, e.g. the Bern, Paris, Stockholm, Madrid, Nice, Lisbon, Locarno, Washington, Strasbourg, and Budapest conventions. Slovak laws and regulations on intellectual property are identical to those of the former Czechoslovakia, as the Slovak Republic in early 1993 passed legislation adopting all former federal laws. Slovak laws in this area are compatible with Western European legislation. A new law on administrative fees was passed in 1993; a law on trademarks is expected in 1994. Slovakia is a successor to Czechoslovak membership in the World Intellectual Property Organization (WIPO). The U.S. Embassy is not aware of disputes involving U.S. interests in the area of intellectual property protection.

8. Worker Rights

a. *The Right of Association.*—There are no government restrictions on the constitutional right of workers to form or join unions in Slovakia, except that the armed forces are excluded from this right. Unions are independent of the government and political parties; at present roughly 70 percent of the labor force is organized. All workers enjoy the right to strike, except those in sensitive positions such as judges, prosecutors, members of the armed forces, police, and fire-fighters.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected by law and freely practiced throughout Slovakia. Wages are set by free negotiation.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law. There is no evidence that violations have occurred.

d. *Minimum Age for Employment of Children.*—The labor code forbids employment of children under the age of 16. Exceptions are made for 15-year-olds who have completed elementary school and for 14-year-olds who have completed courses at special schools for the disabled.

e. *Acceptable Conditions of Work.*—The Office of Labor Security issues standards on security, and the Office of Hygiene issues standards on health at the work place. On October 18, 1993, the minimum monthly wage was raised to 2450 SK. The law mandates a standard workweek of 42.5 hours, which may be modified by collective bargaining. Caps exist on overtime and workers are assured of at least 30 minutes' 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 sectors with U.S. investment are the same as in other enterprises in Slovakia.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		117

Note: Above figures are for the former Czechoslovakia. Disaggregated figures for the Slovak Republics are not yet available.

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

[2] Less than $500,000.

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

SLOVENIA

Slovenia, the most developed republic of the former Yugoslavia, gained its independence in 1991. It had the highest per capita GDP (over $6,000) in Eastern Europe for 1992. After four years of steep decline in both industrial production and GDP, the economy is expected to level out in 1993. GDP in 1993 is projected to fall by two percent, and unemployment will stay at about 15 percent. The painful transition to a market based economy has been exacerbated by the disruption of intra-Yugoslav trade.

Slovenia has successfully reoriented much of its trade from its former Yugoslav neighbors towards Western Europe. The 1992 imposition of United Nations trade sanctions against Serbia cut off Slovenia's largest market. In 1990, 30 percent of Slovenia's exports went to other former Yugoslav republics. In contrast, Slovenia sent 55 percent of its exports to the European Union in 1992, and only about 20 percent to Croatia and the other former Yugoslav states. Slovenia reported a $540 million trade surplus in 1992 and a $135 million trade deficit for the first six months of 1993.

The European Union (EU) signed a cooperation agreement with Slovenia in April 1993, which provided for greater access to the EU market. Negotiations on an Association Agreement began in December 1993. Also, Slovenia in 1993 entered into trade agreements with Hungary, the Czech Republic and Slovakia that provide for gradual elimination of most trade barriers.

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. Hard currency reserves rose to nearly $1.5 billion in 1993. Unsettled issues relating to the division of the former Yugoslavia debt has caused disbursements by official creditors to drop by two-thirds since 1991. Slovenia and the U.S. Export-Import Bank have not resolved the issue of arrearages on the Krsko plant financing.

Slovenia has liberalized prices and implemented many economic reforms. A privatization law was passed in November 1992. Legislation on bankruptcy, company structure reform and public sector reform is still needed. The banking system carries a large amount of non-performing assets, and needs recapitalization. In 1992, about 85 percent of employees worked for socially owned enterprises, while less than five percent worked for privately owned firms. The government plans to privatize some of those socially owned enterprises. Slovenia remains relatively attractive to German and other foreign investors, but U.S. investment is very low.

Slovenia is now a member of the IMF, but does not have a Standby Arrangement. It is a member of the World Bank, and obtained an $80 million loan for financial rehabilitation. Slovenia obtained a $50 million loan from the EBRD for the railway sector. Slovenia, currently an observer at the GATT, began accession negotiations in 1993.

SPAIN

Key Economic Indicators

[Billions of U.S. dollars unless otherwise noted] [1]

	1991	1992	1993 [2]
Income, Production, and Employment:			
Real GDP (1986 prices) [3]	382.7	393.2	318.2
Real GDP Growth (Pct.)	2.2	0.8	−1.0
GDP (at current prices) [3]	526.6	576.3	481.9
By Sector:			
Agriculture	21.4	20.3	17.0
Industry	129.1	133.8	110.0
Construction	49.1	49.5	40.0
Services	294.3	334.9	288.0
Net exports of Goods and Services	90.4	101.4	90.0
Labor Force (000's)	15,125	15,193	15,300
Unemployment Rate (percent)	17.0	20.1	23.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	12.9	−0.3	−1.2

Key Economic Indicators—Continued

[Billions of U.S. dollars unless otherwise noted] [1]

	1991	1992	1993 [2]
Base Interest Rate [4]	14.0	13.5	10.0
Personal Saving Rate (pct.)	21.4	19.6	19.0
Retail Inflation (pct.)	5.9	5.9	4.5
Wholesale Inflation (pct.)	1.5	1.4	1.7
Consumer Price Index	94.8	100.4	104.2
Exchange Rate (Pta/US$): Official	104.1	102.1	125.0
Balance of Payments and Trade:			
Total Exports FOB [5]	59.8	64.7	72.8
Exports to U.S	2.9	3.1	3.3
Total Imports CIF [5]	92.9	99.9	95.2
Imports from U.S	7.4	7.4	6.8
External public debt	58.0	79.8	90.0
Debt service payments (paid)	81.2	214.1 N/A	
Gold and FOREX Reserves	66.3	50.5	50.0
Trade Balance [5]	−33.1	−35.2	−22.4
Balance with U.S	−4.5	−4.3	−3.5

N/A—Not available.

[1] Exchange rate:
1991—104.10 pta/Dols 1.00
1992—102.12 pta/Dols 1.00
1993—125.00 pta/Dols 1.00

[2] 1993 Figures are all estimates based on available monthly data in October 1993.

[3] GDP at factor cost.

[4] Figures are actual, average annual interest rates, not changes in them.

[5] Merchandise trade

1. General Policy Framework

Following the economic boom of 1986–1990, the Spanish economy has slowed along with that of other EU member state economies. Real GDP barely grew in 1992, and is likely to decline by close to one percent in 1993. Unemployment has mushroomed to nearly 23 percent of the work force, contributing (along with collapsing business investment) to a decline in domestic demand. Devaluation of the peseta since September 1992 has made Spanish exports more competitive, but an export-led recovery in 1994 will depend largely on economic recovery in Spain's major market—the rest of the EU. A solid recovery will also require appropriate domestic policy actions, including control of the budget deficit, labor market reform and wage moderation, and possibly some additional loosening of monetary policy.

Spain's accession to the EC (now known as the EU) in 1986 established the framework for its subsequent economic performance. EU membership has required Spain to open its economy; modernize its industrial base; improve infrastructure; and revise economic legislation to conform to EU guidelines. Furthermore, the EU's Maastricht Treaty, calling for eventual Economic and Monetary Union (EMU) among the 12 EU member states, later established specific criteria for economic performance which now serve as official objectives for the Spanish government. In particular, these criteria call for reduced government deficits, lower inflation and foreign exchange stability. Foreign investors, principally from other EU countries, have invested over $60 billion in Spain since 1986.

Inflation continues to be a problem despite the recession, with the underlying rate of inflation unlikely to fall much below five percent for 1993. The main source of inflationary pressure is the fiscal deficit, which may exceed seven percent of GDP (for the entire public sector) in 1993. During 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 in face of growing social program coverage and expenditures. Social spending and transfer payments exploded during the 1993 recession. The budget proposed for 1994 reverses this emphasis, seeking to dampen the growth of social expenditures but increase public investment to five percent of GDP (partly with the support of funds transferred from the EU).

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2. Exchange Rate Policy

Spain joined the European Monetary System (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. The peseta played a role in the turmoil disrupting the EMS beginning in September 1992 and resulting in expansion of EMS "bands" to 15 percent in August 1993. Since August 1992, the peseta has declined by 18 percent against the ECU and 25 percent against the DM. This has contributed to a recovery of Spanish competitiveness vs. other EU countries. Many local economists believe the peseta is now at a realistic value with regard to other EMS currencies, and the government is likely to attempt to maintain the peseta more or less at its current value within the EMS.

From mid 1989 through December 1992, the Bank of Spain maintained a high interest rate policy as the principal measure to combat inflation. While the policy had some success in reducing inflation, the high yields attracted foreign capital which pushed the peseta near the top of its allowed band. During the 1992/93 series of crises in the EMS, Spain was able to reduce benchmark interest rates from a December 1992 peak of 13.75 percent to 9.5 percent currently.

The Government of Spain removed the few 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 EU in January 1986 required Spain to open its economy. By December 1992, Spanish tariffs were phased out for imports from other EU countries, and lowered to the EU's common external tariff level for imports from non-EU countries. Many non-tariff barriers also had to be reduced or eliminated. While areas of dispute remain (see section 5), the trend is strongly toward a more open economy. The EU program to establish a single market has accelerated Spain's integration into the EU.

Spain's membership in the EU 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 has provided for more open and transparent stock markets, as well as for licensing of investment banking services. The reform also liberalized conditions for obtaining a stock brokerage license. A new foreign investment law passed in June 1992 removed many of the administrative requirements for foreign investments. Investments from EU resident companies are free from almost all restrictions, while non-EU 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 EU, the United States negotiated an Enlargement Agreement with the EU in 1987 which establishes a 2.3 million ton annual quota for Spanish imports of corn, specified nongrain feed ingredients and sorghum from non-EU countries during a four year period. Since the United States and the EU 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 EU agreed upon a 1993 extension. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue. U.S. exports of corn and sorghum, valued at about $200 million annually, are an important part of the U.S. trade with Spain.

Spain was obliged under its EU 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 EU membership. The United States objected that the new import regime for non-EU products was illegal under the 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 is expected to total $90 billion by the end of 1993. International reserves peaked at $72.3 billion in July 1992, but fell to $50.5 billion by the end of that year, as the Bank of Spain used extensive reserves in attempts to support the peseta. Moody's rates debt of the Kingdom of Spain as AA2. Given Spain's membership in the EU 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: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs and variable levies (as much as 200 percent for some commodities) that effectively keep lower priced imports from entering the domestic market to compete with domestic production.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. These regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone treated beef, imposed with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in Spanish beef production, the EU continues to ban U.S. beef originating from feedlots where growth promotants have been used safely and under strict regulation for many years.

One important aspect of Spain's EU membership is how EU wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging will impact the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation became fully implemented in Spain, and now agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations will impose additional import requirements. For example, Spain will now require any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is now required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Telecommunications: Spain's telecommunications services policy is set out in the 1987 Telecommunications Law and subsequent amendments to bring Spain in line with EU liberalization requirements, and a 30 year contract between the telephone company (Telefonica) and the Spanish Ministry of Public Works and Transport (signed in 1991). In essence, the new contract providing for a gradual reduction in Telefonica's monopoly also implies that the company will lose its monopoly in voice telephony by 2003. The contract also provides for the gradual liberalization of data transmission (beginning in 1993), mobile telephony (a second license in 1994), and value-added services. Despite this gradual liberalization, a proposed Spanish amendment to the Telecommunications Law would limit foreign ownership of firms offering final or carrier services to 25 percent of equity capital, unless cabinet approval is granted. There are, however, special caveats that will permit differentiation between Spanish and foreign companies.

British Telecom and Banco Santander opened the battle for data communications September 15, when they announced an alliance to compete with Telefonica in this segment of the market. The new alliance will have to use circuits owned by Telefonica. Their decision has forced Telefonica to accelerate its own plans for the sector, announcing an alliance with La Caixa savings bank to capitalize on the financial institution's large data transmission network, and plans to spend up to 46.5 million pesetas on a fiber optic network for corporate data transmission.

The equipment segment of the Spanish market is generally open. Purchases of customer premise equipment have been liberalized, and Telefonica is a major buyer of U.S. transmission and switching equipment. Product certification requirements, however, can still be a problem for some types of equipment.

Banking Services: Spain's transposition of the EU Second Banking Directive in March 1993, placed U.S. banks with branches in Spain at a competitive disadvantage with respect to branches of EU banks in Spain. The latter are now exempt from Spanish dotation capital requirements as well as extensive reporting requirements. There are ongoing negotiations to find an acceptable solution.

Government Procurement: During the May 1992 GATT Government Procurement Code Committee meeting, signatories agreed to extend code benefits to Spain by July 22, 1992. This required Spain to fully implement the corresponding EU directives. As a result, American suppliers having contracts with Spanish government entities covered by the GATT Code are protected with respect to discrimination, transparency, and appeal procedures.

Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites). Recent large commercial contracts have contained offset provisions in the 30 to 60 percent range.

Television Broadcasting Stations: The government has not transposed the EU broadcast directive which imposes restrictions on the share of non-EU programming shown on TV. Nor has the government introduced draft legislation to regulate cable T.V. Private stations, which heavily program U.S. movies and sitcoms, are concerned that the Spanish government may introduce and later enforce draft legislation which would require 60 percent EU program content. Given the strong public preference for U.S. programs, quota restrictions would limit sales opportunities. In addition Spanish legislation imposes 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.

Motion Picture Dubbing Licenses and Screen Quotas: Spain requires issuance of a license for dubbing non-EU films into Spanish for distribution in Spain. During 1993, the Spanish government drafted new legislation that could significantly increase the burden on distributors of U.S. films. Spain is attempting to pass this legislation by "decree law", allowing the new legislation to be "grandfathered" under the Uruguay Round. The U.S. Government is strongly opposed to Spain's attempt to pass this legislation and wants Spain to remove this trade barrier altogether. Dubbed movies are commercially more successful than subtitled original language films in the Spanish market. Currently, 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 EU films for every two days of non-EU films.

Product Standards and Certification Requirements: While product certification requirements (homologation) have been liberalized considerably since Spain's entry into EU, problems remain for U.S. exporters in three areas. First, cumbersome certification requirements remain for some telecommunications products, terminal equipment, certain computer peripherals, and some building materials. Second, there is a lack of transparency and consistency in the application of certification requirements. There are no published norms for the documentary evidence needed to establish that an item has met certification requirements of another EU government and that a product is in "free circulation" in an EU market. Third, the local interpretation and application of some EU directives and regulations have caused disruption in trade with the U.S. In a recent example, Spanish enforcement of rules for pleasure boat imports delayed American imports until the corresponding certification requirements were clarified.

The Spanish government generally maintains that it does not use product certification procedures to hinder trade. It has been cooperative in resolving specific trade problems brought to its attention. The United States has encouraged Spain to simplify its certification procedures and to make them more transparent. In this regard at the EU level mutual recognition of product standards and testing laboratory results is being pursued.

6. Exports Subsidies Policies

In order to promote exports, particularly in Latin America, Spain uses "tied aid" credits. Such credits are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Community. Total EU subsidies of Spanish agricultural exports amounted to $518 million in 1992. Spanish exports of grains, wine, sugar, dairy products, beef, and fruits and vegetables benefitted most from these subsidies in 1992.

Credits for pre-financing of exports made to third countries on a consignment basis are available at unsubsidized commercial rates, which currently range from 11 to 12 percent per annum. Exporters also make use of a government-subsidized export payment insurance program which offers a wide scope of coverage. It applies to total or partial failure to collect debts. The program is administered by a government corporation, CESCE.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws as agreed at the time of its EU accession. It enacted a new patent law in March 1986, a new copyright law in November 1987, and a new trademark law in November 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Bern, and Universal copyright conventions and the Madrid Accord on Trade-

marks. Spanish 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 expired and product protection took 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. In late October 1993, the government submitted to the Parliament draft legislation that would transpose the EU software directive. The draft includes provisions that allow for unannounced searches in civil lawsuits. U.S. industry would like to see a speedy approval of the legislation.

In 1991, continuing Spanish 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 Spanish government has prohibited them from running cables across public ways and is attempting to phase them out. The copyright law has clearly established that no motion picture can be publicly exhibited without the authorization of the copyright holder and that "Community Video" is to be considered as public exhibition.

The trademark law is intended to facilitate improved enforcement. It incorporates by reference the enforcement procedures of the patent law, defines trademark infringements as unfair competition, and creates civil and criminal penalties for violations. Aggressive Spanish enforcement efforts since 1991 have resulted in numerous civil and criminal actions; however, the infringement of trademark rights in Spain is still a problem, particularly in the textile and leather goods sector.

In 1993 Spain was placed for the fourth year on the Special 301 Watch List, primarily because of inadequate protection for computer programs and growing concerns about reported plans to tighten up on the motion picture licensing regime. An out-of-cycle review of Spain under Special 301 is scheduled for January 1994.

8. Worker Rights

a. *The Right of Association.*—All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. 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. 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. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively was established by the Workers Statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is wide-

spread 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 40 hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments—one paycheck each month and an "extra" check in June and in December. Based on a 1992 average exchange rate of 102 pesetas to the U.S. dollar and full days and years of work, the legal minimum wage for workers over 18 is $19.12 per day or $573.82 per month. For those 16 to 18 it is $12.63 per day or $380 per month. 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.

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 Selected Industries.--U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		149
Total Manufacturing		5,430
Food & Kindred Products	499	
Chemicals and Allied Products	810	
Metals, Primary & Fabricated	196	
Machinery, except Electrical	607	
Electric & Electronic Equipment	208	
Transportation Equipment	2,113	
Other Manufacturing	996	
Wholesale Trade		1,089
Banking		1,022
Finance and Insurance		166
Services		410
Other Industries		−101
TOTAL ALL INDUSTRIES		8,165

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

SWEDEN

Key Economic Indicators

[Billions of Swedish kronor (SEK) unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1985 prices)	954.1	938.0	912.1
Real GDP Growth (pct.)	−1.7	−1.7	−2.8
GDP (current prices)	1,438.2	1,436.5	1,431.7
GDP by Sector (value added, 1985 prices):			
Agriculture & Fishing	14.8	13.9	14.9
Forestry	14.1	14.7	14.7
Energy & Water	25.4	25.2	25.2
Mining & Manufacturing	194.3	188.5	190.4
Construction	57.0	52.6	48.4
Bank & Insurance Services	41.8	41.7	39.8
Other Services	327.5	325.3	313.8
Net Exports of Goods & Services	−3.5	−0.5	31.1
Real Per Capita GDP (SEK)	110,700	108,200	104,700
Labor Force (000's)	4,516	4,429	4,305
Unemployment Rate (pct.)	2.9	5.3	8.0
Money and Prices:			
Money Supply (M3) [2]	661.8	682.8	673.6
Base Interest Rate (3-month STIBOR)	13.69	11.87	7.95
Personal Saving Rate (pct.)	3.4	8.1	9.9
Producer Prices (pct. chg.)	4.5	1.0	2.2
Consumer Prices (pct. chg.)	9.4	2.3	4.6
Exchange Rate (SEK/$1.00)	6.05	5.81	7.75
Balance of Payments and Trade:			
Total Exports (FOB)	332.8	326.0	380.9
Exports to U.S. [3]	30.9	29.2	30.3
Total Imports (CIF)	300.9	290.4	321.0
Imports from U.S. [3]	25.9	28.0	30.2
Aid from U.S	0	0	0
Aid from Other Countries	0	0	0
External Public Debt [2]	59.0	243.5	359.2
Debt Service Payments [4]	22.1	17.5	55.4
Gold & FOREX Reserves [2]	99.7	163.6	177.2
Balance on Current Account	−20.3	−29.0	0.0

[1] Estimated.
[2] Year-end and 09/30/93.
[3] Annualized 1993 figure based on first half-year data.
[4] Interest and amortizations on central government external funded debt. For 1993, first half year.

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 work force. 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 Union (EU) in 1991. Until it becomes a member of the Community, which the government hopes can occur in 1995, Sweden's relations with the EU will be governed by an interim arrangement, the European Economic Area (EEA) agreement, when ratified by all signatories. Most Swedish regulations have already been modified to harmonize with EU 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.

As 1993 came to a close, Sweden was just beginning to pull out of the worst and most protracted recession experienced since the 1930's (GDP declined by some 6 percent in the three-year period 1991–93). The government estimates that open unemployment in 1993 will be eight percent of the work force, an unprecedentedly high level for Sweden. "Hidden" unemployed, like those in government training and work programs, add 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, but have since fallen back to levels slightly above those of Germany. This development helped ease the ongoing financial crisis somewhat. Although Sweden defended the krona's fixed exchange rate through several waves of speculation in late 1992, the government was forced to allow the krona to float freely against European currencies as of November 19 of that year.

Although the immediate future for the non-exporting part of 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 EU 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, and changes are under way to improve the business climate for small and medium-sized firms.

Budgetary constraints 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. Despite the very shaky condition of the economy, it does not seem that any further broad political compromises can be reached before the general elections scheduled for September 1994.

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 EU, Sweden unhooked from the dollar-heavy "basket" and pegged the krona unilaterally to the European Currency Unit (ECU) in mid-1991.

After defending the krona during turbulence on European foreign exchange markets in late 1992, which for a brief period sent overnight interest rates rocketing into three digits, the government was eventually forced to float the krona. The currency has since depreciated by around 30 percent of its value against the U.S. dollar, the deutschmark, and the pound sterling, and by more than 50 percent against the yen.

The stated monetary policy of the Central Bank is to see that the depreciation of the krona does not result in an increase in the underlying inflation rate (i.e., when the effects of changes in indirect taxes and the depreciation are excluded). Inflation is to be held close to 2 percent beginning in 1995, once the immediate effects of the float plus various indirect tax increases have worked through the system.

Sweden applied a battery of foreign exchange controls until the international deregulation process, particularly that occurring in the EU, forced it to follow suit in the latter half of the 1980s. The only remaining restriction of this legacy comprises 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, equivalent to around 50 percent of GDP. Current central government expenditure during the severe recession is running at almost 75 percent of GDP, versus an average for OECD Europe of under 50 percent. The stated policy of the government is to lower tax rates to

bring them in closer harmony with levels in the EU, 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 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 1993 at an effective 25 percent of retail price and a lower rate at 21 percent for food, domestic transportation, and tourist-related services.

Trade in industrial products between Sweden, the EU 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. (Swedish tariffs, on average, would increase slightly were the country to become a member of the EU.) 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 deregulating its complicated postwar system of agricultural price regulation. Shortly thereafter, however, Sweden applied for EU membership, which will mean that the country, if and when membership is achieved, will have to adhere to the EU's Common Agricultural Policy and apply its regulations.

4. Debt Management Policies

Sweden's traditional external debt policy, dating back to the mid-1980s, was to incur no net foreign borrowing by central government for the purpose of financing budget deficits. When the policy was introduced, central government external debt amounted to roughly one-quarter of the national debt. However, a heavy drain on foreign exchange reserves in conjunction with the turbulence in European financial markets in the fall of 1992 ended the policy. The Central Bank and National Debt Office have since borrowed heavily in foreign currencies, increasing the central government's external debt fivefold virtually overnight to the equivalent of approaching one-third of the national debt. The new guidelines for central government borrowing in foreign currencies state that the lion's share of the national debt should continue to be in Swedish kronor; that the borrowing should be predictable in the short term yet flexible in the medium term; that the government shall direct the extent of the borrowing; and that it shall report each year on developments to the Parliament. Management of the increased debt level is as yet posing no problems to the country, but interest payments on the burgeoning national debt as a whole are growing rapidly.

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 EU and international standards, labeling, and customs documents, in order to facilitate its own exports.

Having adjusted its laws and regulations to EU practices in preparation for eventual membership of the Community, the country is now open to virtually all foreign investment and allows 100-percent foreign ownership except in areas of air transportation, maritime transportation, and the manufacture of war material. In recent years the Swedish government has done away with laws governing foreign acquisitions of firms and has relinquished all controls over foreign purchases of real estate for business purposes. Any shares listed on the Stockholm Stock Exchange may now be acquired by Swedes and foreigners alike. However, corporate shares in Sweden can still have differing voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government-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.

Public procurement regulations have been harmonized to EU directives in light of Swedish obligations under the EEA Agreement. The new regulations, which apply

to central and local government purchases in excess of ECU 400,000, now cover procurement by entities in previously excluded sectors, i.e., the water, energy, transportation, and telecommunications sectors. When the EEA Agreement eventually enters into effect, Sweden will be required to publish all government procurement opportunities in the European Union Official Journal.

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 developing countries with concessionary trade financing.

At year end 1993, Swedish farmers were still receiving government support for exports of surplus grain and meat production, although these subsidies are being phased out. The government recently instituted new export subsidies for some processed foods, among them hard cheeses. If and when Sweden becomes a member of the EU, its agricultural support policies will have to be adjusted to comply with the EU's Common Agricultural Policy, including intervention buying, production quotas, and increased export subsidies.

In Sweden there are no tax or duty exemptions on imported inputs; no resource discounts to producers; and no preferential exchange rate schemes. Sweden is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

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 Bern 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. Swedish intellectual property practices have no adverse impact on U.S. trade.

8. Worker Rights

a. *The 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, 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. *The Right to Organize and Bargain Collectively.*—Workers are free to organize and bargain collectively. Collective bargaining is carried out in the form of national framework agreements between central organizations of workers and employers, followed by industry and plant-level agreements on details. In 1993, after a two-year wage stabilization agreement expired, a new national agreement with small wage increases was signed for the manufacturing industry. As structured, the settlement represents a step toward the decentralization of the wage formation process favored by business.

Swedish law fully protects workers from anti-union discrimination and provides sophisticated and effective mechanisms for resolving disputes and complaints.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law and does not exist.

d. *Minimum Age for Employment of Children.*—Compulsory nine-year education ends at age 16, and full 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 those with low wages.

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 plus 2 days of paid annual leave, and many labor contracts provide more. During 1993, however, it was made possible to reduce the minimum leave by two days through negotiations with the unions.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		38
Total Manufacturing		1,289
Food & Kindred Products	(1)	
Chemicals and Allied Products	90	
Metals, Primary & Fabricated	22	
Machinery, except Electrical	861	
Electric & Electronic Equipment	30	
Transportation Equipment	(1)	
Other Manufacturing	228	
Wholesale Trade		450
Banking		(1)
Finance and Insurance		136
Services		89
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,033

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

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

SWITZERLAND

Key Economic Indicators

[Millions of Swiss francs unless otherwise noted]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP (1980 Prices) [1]	209,335	209,210	102,405
Real GDP Growth (pct.) [1]	0.0	−0.1	−1.0
Real Per Capita GDP	31,603	31,145	N/A
GDP (at current prices) [1]	331,075	339,470	170,260
Labor Force (000's) [2]	3,560.3	3,480.5	3,370.6
—of which foreigners [3]	929.7	942.3	929.9
Unemployment Rate [4]	1.1	2.5	4.8
Money and Prices:			
Central Bank Money (pct. growth)	3.5	−1.0	[5] 3.2
Money Supply M1 (pct. growth)	1.3	0.1	[6] 10.1
Base Interest Rate (pct.)	7.0	6.0	[5] 5.0
Personal Saving Rate	13.0	13.1	N/A
Consumer Price Index (pct.)	5.9	4.0	[4] 3.4
Wholesale Price Index (pct.)	0.4	0.1	[7] −0.1
Exchange Rate ($/Sfr)	0.697	0.712	[5] 0.668

Key Economic Indicators—Continued

[Millions of Swiss francs unless otherwise noted]

	1991	1992	1993
Balance of Payments and Trade:			
Total Exports	82,021	86,148	[1]42,767
Exports to U.S	6,406	7,002	[1]3,539
Total Imports	88,681	86,739	[1]41,875
Imports from U.S	6,096	5,137	[1]2,393
Trade Balance	−6,660	−591	[1]892
Gold & FOREX Reserves	34,439	37,463	[5]41,150

N/A—Not available.
[1] First half of 1993.
[2] First quarter 1993.
[3] Situation at end of April.
[4] September 1993 figure, annualized.
[5] August 1993 figure.
[6] Average for first 7 months of 1993.
[7] May 1993 figure, annualized.

1. General Economic Framework

Switzerland has an internationally-oriented, open economy characterized by a developed manufacturing sector, a highly skilled work force, a large services sector, a high savings rate and a highly protected agricultural sector. After economic prosperity in the 1980's, the Swiss economy stopped growing in 1991 and declined in 1992 and 1993. Unlike previous recessions, the period of stagnation has been extremely long while the decline in GDP has been small. There is little hope that GDP will grow at a fast pace in 1994, but at least, analysts agree that the Swiss economy will grow again in 1994. In contrast to past recessions, it appears that the current recession is mainly home-made, caused by the strong decline in investments and private consumption (while exports continued to grow in 1992).

No systematic use is made of fiscal policy to stimulate the economy. However, the Swiss government agreed to spend Sfr600 million on an investment bonus in spring 1993. The program was designed to allow cantons, communes and private individuals to finish projects within six months of completion with the help of credits at very favorable terms. The investment bonus was a short-term temporary measure and was not repeated by the government. In March 1993, the Swiss voted in favor of an increased gasoline tax that should generate additional tax revenues exceeding Sfr one billion per year. In November 1993, Swiss voters approved a shift from the turnover tax to a value-added tax (VAT), effective in 1995. The approved 6.5 percent VAT will be applied in most of the service sector, broadening the Swiss tax base.

The Swiss National Bank (SNB) is independent from the Finance Ministry and has the main objective to maintain price stability. Monetary policy is conducted through open market operations. The discount rate has only symbolic value and is used by the SNB as a signal to the public. The SNB is also independent from foreign central banks, although the small size of the country and the free movement of capital make Switzerland highly vulnerable to events in Europe and other world financial centers.

2. Exchange Rate Policies

In the mid and long term, the SNB does not follow any exchange rate policy, and the Swiss franc is not pegged to any foreign currency. However, in cases where the Swiss currency would be likely to appreciate considerably over a short period, the SNB takes measures to prevent further appreciation.

3. Structural Policies.

Government agencies use competitive bids for procurement. The Defense Ministry and the PTT (a public corporation within the government) 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. Except for telecommunications, the impact of Swiss structural policies on U.S. exports is insignificant.

The domestic economy is characterized by a wide variety of cartel-like agreements which are not prohibited under current Swiss law. Many cantonal laws and practices protect local small business from competitors outside the cantonal borders. But recent efforts to revitalize the Swiss economy have started to dismantle some of the barriers.

Agriculture is the most protected sector in Switzerland and highly subsidized by the government either through guaranteed prices or direct payments. Farmers receive guaranteed prices for grains, sugar beets, milk, and other basic products. Prices of agricultural imports are raised to domestic levels by variable import duties and by requiring importers to buy domestic products at high prices as a condition of importing. Agricultural products like tobacco, cotton and bananas that are not produced in Switzerland can be imported without restrictions.

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 Executive Board.

5. Significant Barriers to U.S. Exports

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 new law that came into force January 1993, annual quotas on imported films have been abrogated. Film distributors still have to be of Swiss nationality or, in case of a company, the headquarters have to be located in Switzerland. If a distributor controls more than a quarter of the market, Swiss authorities can cancel their authorization. The same rules apply for owners of movie theaters.

Barriers still exist in the area of telecommunications. The public network and basic services are still under the control of the Swiss PTT. Value added services and equipment such as telephone or fax machines have been liberalized. However, the equipment has to be approved by the Federal Office of Telecommunications. Since voice transmission is still a state monopoly, fast growing markets like mobile communications remain in the hands of PTT.

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 do business in Switzerland to establish a subsidiary or a branch locally. Government regulations do not call for any special restrictions on foreign insurers established in Switzerland. However, Swiss insurance companies are allowed to impose restrictions on the transfer of their registered shares to block unwelcome takeovers.

Strict regulations govern the admission of foreigners seeking to enter the Swiss labor market. Nevertheless, the foreign labor force represents more than a quarter of the total Swiss work force. Sectors like construction, tourism and farming have a high proportion of low-paid, unskilled, seasonal workers. In high-tech sectors like electrical engineering, companies have problems finding qualified people. The Swiss government is therefore considering the granting of better access to qualified workers from European Economic Area (EEA) countries.

Attorneys and lawyers, like members of other professions which require certification (physicians, 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, Labelling, and Certification: A large number of standards and technical regulations in force in Switzerland are based on international norms. However, household electrical appliances must be tested and approved by the Swiss Electrotechnical Association, a semi-official body. All drugs (prescription and over-the-counter) must be approved and registered by the Inter-cantonal Drug Agency. Labels are required to be in German, French and Italian.

Investment Barriers: The Swiss generally welcome foreign investment and accord it national treatment. Legislation affecting foreign investment is confined to the following areas: ownership of real estate by foreigners; limits on the number of foreign

workers; licensing of foreign banks and insurance companies; and, restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland. There are legal restrictions on foreign participation in the hydro-electric and nuclear power sectors, operation of oil pipelines, transportation of explosive materials, television and radio broadcasting, operation of Swiss airlines, and maritime navigation.

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. Swiss corporate shares are issued as registered shares (in the name of the holder) or bearer shares. In the past, Swiss corporations often imposed restrictions on the transfer of registered shares to limit foreign ownership. But new legislation introduced in July 1992 and the increased reliance of public companies on the international capital markets forced Swiss companies to open their shares to foreign investors. At present, 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. 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.

Under Swiss law, the purchase of property by foreign nationals or companies is subject to authorization by cantonal governments. For the acquisition of secondary residences by foreign nationals, there exists a system of quotas. However, foreigners are not allowed to engage in real estate business.

Government Procurement Practices: In general, Swiss authorities comply with GATT rules regarding procurement by government entities. Certain restrictions exist for defense related items, railroads, and telecommunications. At the cantonal level, a process of liberalizing public procurement has been initiated by Geneva and Friburg.

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 10 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 farm income is attributable to subsidies, import restrictions, or other government measures. On national security grounds, the Swiss government 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. The granting of export credits is the sole responsibility of the private sector. Non-commercial risks are covered by the Export Risk Guarantee (ERG) program. Risks covered include foreign exchange difficulties, payment moratoriums, insolvency and political risk including revolution, civil strife, and nationalization. The ERG is a financially independent government institution.

In agriculture, the federal government subsidizes exports of dairy products (primarily cheese), processed food products (chocolate products, grain-based bakery products, etc.) and temporary surpluses of domestic products like beef or concentrated apple juice.

7. Protection of U.S. Intellectual Property

Switzerland provides a very high standard of intellectual property rights (IPR) protection, comparable to that available in the United States. It is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the Patent Cooperation Treaty. In the context of the GATT negotiations, Switzerland is working to strengthen intellectual property rights worldwide.

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 patent term 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, therapeutic, and diagnostic processes for application on humans and animals; and, 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 gene technology is subject to a controversial public debate. 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. Trademarks are protected for a period of 10 years and may be renewed.

Copyrights: A revised copyright law, in force since July 1993, explicitly treats computer programs as literary works (as defined in the Bern Convention) and introduces tougher measures against illegal copying of software. The revision closed an important gap in Swiss legislation on copyrights and should help to reduce the widespread copying of software.

Layout Designs of Integrated Circuits: Provisions for protecting mask works are made under a new law that came into force July 1993. The protection ends after a period of ten years.

The most significant area where Switzerland's intellectual property practices affect trade with the United States is in the field of computer software. Experts estimate that annual losses to copyright owners amount to several hundred million Swiss francs.

8. Worker Rights

a. *The 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 1993.

b. *The Right to Organize and Bargain Collectively.*—Swiss law gives workers the right to organize and bargain collectively and protects them from acts of anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—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. 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. 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 work places 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 labor-intensive sectors. Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons) legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		333
Total Manufacturing		1,508
Food & Kindred Products	(1)	
Chemicals and Allied Products	208	
Metals, Primary & Fabricated	122	
Machinery, except Electrical	171	
Electric & Electronic Equipment	216	
Transportation Equipment	8	
Other Manufacturing	(1)	
Wholesale Trade		8,305
Banking		1,747
Finance and Insurance		15,917
Services		797
Other Industries		55
TOTAL ALL INDUSTRIES		28,662

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

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

TAJIKISTAN

KEY ECONOMIC INDICATORS

Reliable income, production and employment, money supply and balance of trade data are not available. International Monetary Fund and World Bank financial and economic profiles, including the country economic memorandum, will be published in summer 1994.

1. General Policy Framework

Following the breakup of the Soviet Union, Tajikistan has experienced a drastic fall in economic activity. Successive declines in productivity, sped by the dissolution of inter-CIS trade ties, loss of union subsidies, subsequent civil war, and a series of natural disasters, has culminated in a contraction of the economy to 50% of its 1988 level. Capital investment and capital goods imports have declined precipitously in favor of the importation of consumption goods, particularly wheat. A trend evident before the civil war but intensified in the last year has been the growing economic autonomy of Tajikistan's richest region, Leninabad. Government decrees and legislation passed by the Supreme Soviet are implemented only selectively by regional and district authorities.

Tajikistan has been hesitant to adopt macroeconomic reforms. Legislation passed in 1991 and 1992 on property, privatization, foreign investment, banking activities, foreign trade, and taxes is largely inoperative due to a lack of regulation, absence of appropriate implementing mechanisms or legal bases, and political opposition from entrenched bureaucrats representing communist-era institutions. Approximately 95% of the economy falls under state control. In several areas, the government has reinstated stricter controls over the market, increasing state orders for cotton and produce and establishing a state monopoly over all foreign trade. Due to the disruption of inter-CIS trade payments, a majority of foreign trade is conducted on a barter or counter-trade basis.

The government continues to finance insolvent state enterprises and extensive social subsidies and has increased military outlays in response to attacks along the Tajik-Afghan border and pockets of opposition resistance in the interior. The spiralling national debt, expected to equal 100% of GDP by the beginning of 1994, is financed entirely through the National Bank. The subsequent high inflation has prompted a vicious cycle of increases in state subsidies, debt financing and more inflation. Virtually no credit is available to private organizations or individuals and the government continues to direct credits on a noncommercial basis. Very low interest rates, relative to Russia, reduce the accumulation of savings and prompt the

flight of capital. Tajikistan has committed to the new ruble zone but until implementation of the accord continues to use old Soviet banknotes. The government has no plans to introduce a national or intermediary currency.

Tajikistan receives significant amounts of international humanitarian aid, but little development assistance or concessional financing. The government is dependent upon Russia for 70 percent of its foreign trade and approximately 50 percent of its national budget. Most of Tajikistan's external assistance has been in the form of short-term, high interest loans. The World Bank has allocated $20 million in reconstruction loans, which will become available in 1994, and has prepared technical assistance projects valued at $90 million which will be evaluated by potential donors at a February 1994 pre-consultative group conference. Foreign investment is extremely limited, with only a handful of model textile industries attracting foreign monies.

2. Exchange Rate Policy

Until the Russian central bank introduced the Russian ruble, exchange rates for Soviet rubles in Tajikistan were pegged to the Russian central bank's rates and adjusted biweekly. The exchange rate policy has complicated significantly with the new Russian banknote. According to the National Bank of Tajikistan, inter-republic payments with Russia use the formula of 10 Russian rubles for 6.7 Soviet rubles. However, the commercial and National Banks' exchange rates parallel, at a slightly lower level, the much higher black market rates in Tajikistan and are adjusted weekly.

On November 23, Tajikistan effectively declared its re-entry into the Russian ruble zone by signing a new monetary union agreement with Russia. The agreement requires Tajikistan to withdraw all Soviet rubles from circulation and replace them with Russian rubles. However, disagreement over Russian conditions for Tajikistan's re-entry into the ruble zone have so far delayed implementation of the agreement.

A separate exchange rate is stipulated for the sale of hard currency to the government's foreign currency fund. Depending upon the export product, exporters are technically required to sell between 30 and 68 percent of their hard currency earnings at the artificial rate of 800:1 Soviet ruble/dollar.

3. Structural Policies

The economy of Tajikistan was developed in the Soviet period as a producer of raw materials, primarily cotton, aluminum, fruits and vegetables, very little of which is processed domestically. Consequently, Tajikistan is heavily dependent on imports of consumer goods, petroleum products, grain, medicines, machinery and equipment. Nascent reform efforts designed to address the economy's imbalance were derailed by the political instability and ultimate civil conflict which took place in 1992 and resulted in over 500 billion Soviet rubles in damage according to state figures.

In October 1993, the government announced a new foreign trade regime which concentrates all export activity under eight government ministries, known as general contractors. Only general contractors have the right to issue export licenses and collect the hard currency revenues. The exporting firm is recompensed in rubles or in the equivalent value of state inputs, while the government retains all hard currency earnings. Joint ventures with significant foreign capital investment are exempted from this regime. It is unclear that the legislation is being enforced. Prior stipulations regarding hard currency sales to the government have been ignored or circumvented. However, the new foreign trade regulations sharply curtail permissible foreign trade activity by individual enterprises. U.S. firms seeking to export to Tajikistan must win government support for hard currency expenses and face a highly bureaucratized and factionalized system.

In response to the sharply deteriorating economy, the government of Tajikistan has identified priority investment projects which include the agricultural, energy, mining, and textile sectors. Technical and commercial credits and limited government allocations have been focused in these sectors. Special incentives are offered to foreign investors, including waiver of export licenses, two-year tax relief, and subsequent favorable tax rates. Additional financial incentives for foreign investors are negotiated on a case by case basis.

4. Debt Management Policies

The government of Tajikistan has agreed to, but not yet signed, the zero-option accord with the Russian Federation, whereby Tajikistan's less than one percent share ($787 million) of the former U.S.S.R.'s public debt will be paid by Russia in exchange for Tajikistan's claim to a portion of the former Soviet Union's assets.

The government has begun to amass a relatively significant external debt at generally unfavorable terms. Russia remains Tajikistan's primary creditor. In 1993, Russia granted two sets of technical credits: the first, 49 billion in Soviet rubles, at existing exchange rates was valued at $80 million; the second, 60 billion Russian rubles, was valued at $20 million. Both loans carry interest rates of libor plus 0.5 percent. Other external debt includes $66 million in European Community food credits (at 10.4 percent interest), $24 million in U.S. P.L. 480 concessional food credits, $50 million in Turkish commercial credits, $5 million each in Chinese and Indian commercial credits, and a small number of credits from other CIS states.

The civil war delayed Tajikistan's entry into the World Bank and International Monetary Fund until spring 1993. In fall 1993, the World Bank and International Monetary Fund sent teams of consultants to complete a country economic memorandum which will be published in summer 1994. The World Bank has allocated $20 million in reconstruction/rehabilitation loans and identified $90 million in potential technical assistance and development projects. However, the extent of World Bank and International Monetary Fund involvement in Tajikistan is contingent on reforms at the macroeconomic level.

5. Significant Barriers to U.S. Exports

Tajikistan's impoverished economy, geographical isolation, and business culture which emphasizes personal contacts over competitive bidding are the primary impediments to expanded U.S. trade. Tajikistan's privatization legislation encourages foreign investment except in sectors deemed to be of state interest. Those sectors include defense and defense-related industries, railroads, telecommunications, objects of national heritages, mining, aviation, and alcohol production. Joint venture investments in these sectors or in related service sectors are welcomed.

The government is drafting but has not passed legislation permitting land ownership for property related to commercial enterprises. Agricultural lands will not be privatized, but long term leases are being instituted at the discretion of regional and district authorities. Foreign investors in Tajikistan generally receive extremely favorable treatment, to include long term land leases.

Virtually all trade is conducted by the government, given the preponderance of state ownership of enterprises and limited privatization. Fine fiber cotton and aluminum are the two main sources of government hard currency and trade deals are characterized by the amount of tons the government has decided to allocate. The government's foreign trade association, Omoniyon, is given an annual quota of cotton and aluminum to sell for the purchase of grains, medicines, and other consumer products. Some large joint ventures involve counter-trade. The government rewards loyal foreign investors and business partners. There is no formal competitive bidding process for government projects.

6. Export Subsidies Policies

Tajikistan is not a member of the GATT subsidies code. As a former Soviet Republic, Tajikistan retains certain export subsidies as a legacy of inefficient socialist pricing policies. Gas and electricity, when available, are sold at less than what the cost would be, if it were known. The government has publicly committed to supporting export-oriented industries, specifically through the provision of scarce financing.

7. Protection of U.S. Intellectual Property

Tajikistan is taking appropriate measures to align itself with international intellectual property rights standards although, due to the collapse of the domestic economy, the issue is not a pressing one. In the absence of specific legislation, Tajikistan retains on books the laws of the former Soviet Union. However, in June 1992, Tajikistan acceded to the Universal Copyright Convention and created a Copyright Agency. In May 1993, the government announced the creation of a Patent Information Center. The Center is charged with preparing the necessary legislation to enter into international covenants protecting intellectual property rights. The Copyright and Patent agencies exist only in outline form and lack experienced personnel. However, infringement of intellectual property rights in Tajikistan is limited to individual (and negligible) violations of videocassette copyrights. There is no quantifiable loss for U.S. firms in export or investment opportunities.

8. Worker Rights

a. *The Right of Association.*—All citizens are guaranteed the right of association. Included in this guarantee is the right to form and join associations without prior authorization, to organize territorially, to form and join federations and affiliate with international organizations freely, and to participate in international travel.

There is no longer any requirement for a single labor union structure. However, the communist-era Confederation of Trade Unions remains the dominant labor orga-

nization, although it has shed its subordination to the Communist Party. The Confederation consists of 20 professional trade unions and claims 1,689,000 members. The separate labor union of private enterprise workers has registered 3,000 small and medium enterprises, totalling 40,000 members, some of whom have dual membership in the Confederation.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is codified in the Law on Trade Union Rights and Guarantees, the Law on Social Partnerships and Collective Contracts, and the Law on Labor Protection. Anti-union discrimination or the use of sanctions to dissuade union membership is prohibited.

c. *Prohibition of Forced or Compulsory Labor.*—Forced and compulsory labor is considered to be prohibited, although there is no explicit injunction in the Law on Labor Protection of the Law on Employment of the Population. However, these laws provide that a person has the right to find work of his own choosing. Labor inspectors within the local trade union structure enforce this principle. The Soviet practice of compelling students to harvest cotton was outlawed in 1989, but students were encouraged to collect the cotton crop in 1993 and waived from attending university courses. There are unconfirmed reports regarding the forced labor of returnees and other presumed supporters of the former government in the district of Bokhtar and elsewhere in the south. Local officials and collective farm directors appeal responsible for instituting the forced labor. There are indications that persons detained and awaiting trial have been placed in labor battalions.

d. *Minimum Age for Employment of Children.*—According to labor laws, the minimum age for the employment of children is 16. With the concurrence of the local trade union, employment may begin at the age of 15. While official data is lacking, children from the age of seven routinely perform agricultural work, which is classified "family assistance."

e. *Acceptable Conditions of Work.*—The government's occupational health and safety standards fall below typical western standards and are not actively enforced. According to official data, more than a fifth of industrial workers worked in substandard conditions. The standard work week is 40 hours. The only sector to have even indirect U.S. investment is the manufacturing sector, specifically two cotton textile and one leather production factories. In each instance workers have been free to organize a local chapter of the Confederated Union. There are no known instances of forced or compulsory labor or use of child labor. Relative to former Soviet standards, the factories provide acceptable conditions of work.

f. *Rights in Sectors With U.S. Investment.*—There is no significant U.S. investment in Tajikistan.

TURKEY

Key Economic Indicators

[Trillions of Turkish lira (TL) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1987 prices)[2]	86.5	90.7	97
Real GDP growth (pct)	1.0	5.5	7.0
GDP (at current prices)[2]	618.2	1,072.1	1,800
By Sector:			
Agriculture	97.2	163.4	N/A
Energy and Water	12.9	26.6	N/A
Manufacturing	136.4	230.2	N/A
Mining & Quarrying	11.6	17.8	N/A
Construction	41.6	68.9	N/A
Dwelling Ownership	23.2	41.2	N/A
Financial Services	26.1	46.2	N/A
Other Services	183.8	311.2	N/A
Government, Health and Education	61.1	111.8	N/A
Net Factor Income from Abroad	4.3	10.5	N/A
Real per capita GNP ('87 TL 000s)	1,509.5	1,564.8	1,640.0
Labor Force (000's)	19,967	20,196	N/A
Unemployment Rate (pct)	7.8	7.9	N/A

Key Economic Indicators—Continued

[Trillions of Turkish lira (TL) unless otherwise noted]

	1991	1992	1993[1]
Money and Prices (annual percentage growth):			
Money Supply (M2, mid-year)	86.1	143.3	224.5
Personal Saving Rate (pct.)	23.7	21.3	21.3
Wholesale Inflation	59.2	61.4	60.0
Consumer Price Index	71.1	66.0	68.2
Exchange Rate (TL per US$)	4,169.9	6,882.0	11,096.0
Balance of Payments and Trade (million U.S. dollars):			
Total exports (FOB)[3]	13,593.4	14,714.7	15,200.0
Exports to U.S	913.0	865.0	900.0
Total Imports (CIF)[3]	21,046.9	22,870.9	28,500.0
Imports from U.S	2,255.0	2,601.0	2,970.0
Aid from U.S	755.0	75.0	125.0
External Debt	50,489.0	55,592.0	59,381.0
Debt Service Payments (Med & LT Paid)	6,494.0	8,085.0	6,895.0
Gold and FOREX Res. (mid-year)	10,932.0	12,355.0	17,429.0
Trade Balance[3]	−7,440.0	−8,156.2	13,300.0
Balance with U.S	−1,328.0	N/A	N/A

N/A—Not available.
[1] 1993 figures are all estimates based on available monthly data in October 1993.
[2] GDP at producer's value.
[3] Merchandise trade.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1980, Turkey was an insulated, near autarkic, state-directed economy. In 1980, however, the country embarked on a new course. Increased reliance on market forces, decentralization, export-led development, lower taxes, foreign investment, and privatization became the basis for the new economic philosophy. These reforms have brought Turkey impressive benefits: in 1992, Turkey's 5.9 percent real gross national product (GNP) growth rate was the highest of any OECD country. Real GNP should increase by seven percent in 1993.

Inflation and Growth: Inflation, fueled primarily by massive public sector deficits, continues to be a serious problem. In 1992 consumer prices (CPI) increased by 67 percent, somewhat less than in 1991. The CPI rose 68 percent in the twelve months ending September 30, 1993. The Turkish economy, fueled by a huge increase in demand, led in part by heavy government spending and foreign borrowing, grew by more than nine percent in the first half of 1993. Although growth in the second half of the year is likely to be more modest, this figure has sparked fears that inflation rates may be much higher in 1994.

Fiscal Policy: The Turkish government continues to spend far more than it receives in revenues and tax receipts. In 1992 the public sector borrowing requirement (PSBR) reached 9.6 percent of GNP, down only slightly from 1991's record 10.4 percent. The PSBR, which includes the borrowing requirements of budgetary departments, state economic enterprises (SEEs), and off-budget funds, may increase to as much as 11 percent in 1993. The government continues to incur sizable debt to pay current expenses, finance major infrastructure projects, and to support the SEEs. Deficits are financed primarily through domestic borrowing and advances from the Central Bank.

Monetary Policy: In 1992 Turkey's Central Bank instituted a comprehensive monetary policy that targeted items on its balance sheet rather than macroeconomic variables. This program assumed 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 the second quarter of the year it became clear that none of these conditions were pertinent, and the Bank shifted its focus to the foreign exchange market, where it tried to limit "excessive" exchange rate fluctuations and maintain the value of the lira in real (inflation-adjusted) terms. In 1993 the Bank did not issue a monetary program. Long-term deposit interest rates are slightly positive in real terms; deposits have been growing faster than inflation.

2. Exchange Rate Policy

The Turkish Lira (TL) is fully convertible and the exchange rate is market determined. The Central Bank intervenes in money markets to dampen short-term exchange rate fluctuations and to provide liquidity during extraordinary events, such as the Gulf War.

The TL appreciated significantly vis a vis the dollar in real terms (adjusted by relative CPI changes) in 1989 and 1990, and depreciated slightly in real terms in 1991 and 1992. In the year through September 1993 the TL appreciated by about three percent in real terms.

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 some 35 percent of manufacturing value-added, continues, but difficulties in reorganizing these massive enterprises have slowed the pace. SEEs constitute a substantial drain on the economy, accounting for 2.2 percent of the PSBR in 1992. SEE inefficiencies in production and product pricing continue to distort the market and contribute to high inflation rates. Policies related to SEEs, however, do not have a direct effect on U.S. exports.

After a liberalization of the import regime in 1989, imports climbed dramatically, rising some 41 percent in 1990. Strong economic growth plus further liberalization of the regime in 1993 resulted in another dramatic rise this year. Turkey's largest source of imports in 1992 was Germany, which accounted for 16 percent of total imports, followed by the United States, with 11.4 percent. In the first eight months of 1993, total imports grew nearly 31 percent. Imports from the U.S. were up 32 percent during the same period, resulting in a U.S. trade surplus of $1.7 billion.

By the terms of its Association Agreement with the European Union (EU), Turkey is scheduled to form a customs union with the EU and to adopt the EU's Common External Tariff (CET) in 1995. This should result in generally-lower tariffs and fees on U.S. imports than those currently in effect. On January 1, 1994, Turkey will reduce its tariff schedule further to bring it in line with the CET.

4. Debt Management Policies

At year-end 1992 Turkey's gross outstanding external debt equalled $55 billion. Debt service obligations for 1993 have declined from $8 billion to $6.8 billion. Turkey has no difficulty servicing its foreign debt, but a growing current account deficit is a cause for concern.

The Turkish debt service ratio reached a high in 1988 when it equaled 35.6 percent of foreign exchange revenues. In 1992, the debt service ratio increased from 26.8 percent in 1991 to 27.5 percent. The public sector, including state economic enterprises and local governments, remains 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 27 percent of Turkey's 1992 external debt. Foreign commercial banks hold 17 percent of total Turkish obligations and multilateral agencies hold 16 percent. The World Bank's portfolio in Turkey was a substantial $4.9 billion as of October 1993, with $491.5 million in new credits signed during the Bank's 1993 fiscal year. Turkey completed payments in 1990 on its last IMF standby agreement, which was reached in 1984.

5. Significant Barriers to U.S. Exports

Import Licenses: In general, there is no requirement for government permission or license in the importation of new products. The Government of Turkey requires certification that quality standards have been met in the importation of human and veterinary drugs and certain foodstuffs. Import certificates are necessary for most products which need after-sales service (e.g. photocopiers, EDP equipment, diesel generators).

Import Regime: The Turkish government is progressively reducing import duties. The government's 1993 Import Regime continues efforts begun in 1973 to reduce import duties and harmonize Turkey's tariff system with that of the EU. The 1993 Import Regime also introduced a new tariff system that streamlined a confusing array of duties, taxes, and surcharges. There are now only two tariffs—one for EU/EFTA and one for other countries—and one fund charge on imports, whereas imports faced eight types of duties and six types of fund charges in the past. The resulting rates are now lower for EU/EFTA-origin goods than for goods from the U.S. and third countries. U.S. firms exporting to Turkey may now find themselves disadvantaged compared to European competitors. As Turkey enters the Customs Union, tariffs for

products from EU and EFTA countries will disappear altogether, and Turkey will lower its tariffs on third-country products to the EU's Common External Tariff.

Government Procurement Practices/Countertrade: Turkey normally follows competitive bid procedures for domestic, international and multilateral development bank-assigned tenders. U.S. companies occasionally become frustrated over lengthy and often complicated bidding/negotiating processes. Some tenders, especially large projects involving co-production and those based on the BOT model, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers." In several cases, years have passed without the selection of a contractor.

The Government of Turkey withholds 15 percent of the total amount of services (including any work performed in the U.S.) in government contracts for taxes. As no bilateral tax treaty between the U.S and Turkey exists, this can significantly add to the cost of U.S. bids, making them non-competitive.

Investment: The Foreign Investment General Directorate of the Undersecretariat for Treasury and Foreign Trade evaluates all non-petroleum foreign investment projects and 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 treatme 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. The Turkish government provides a variety of incentives to investors of all nationalities to encourage investment in certain regions and sectors.

Although Turkey's foreign investment law is liberal, and is generally liberally applied, in some BOT, revenue-sharing projects, and joint ventures involving the Turkish Government, American investors have been forced to submit to protracted negotiations with the government. The government's positions in these negotiations have frequently been ill-defined, leading some investors to feel that there is a lack of transparency in these processes.

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.

Turkey eliminated its export tax rebate system in 1989 in conjunction with its accession to the General Agreement on Tariffs and Trade Subsidies Code. A partial deduction for corporate tax purposes allows exporters to deduct eight 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 to improve copyright and patent protection as well as institute greater penalties and enforcement of existing legislation. As a result of inadequate protection for intellectual property, the United States placed Turkey on the "priority watch list" in 1992 and 1993 under the "Special 301" provision of the 1988 Trade Act. Turkey has given assurances it will modernize its intellectual property laws to conform with European Union standards, but the Government of Turkey has still not presented legislation which could resolve this issue to the Turkish parliament.

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 is widespread. The 1987 Cinema, Video, and Music Works Law provided greater protection for these artistic works through a registration system. It has helped 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 has been drafted, but as of October 1993 it has not been presented to Parliament.

Patents (Product and Process): Turkey's 1879 Patent Law does not provide protection for human or veterinary drugs or for the processes for making them. Nor are biological inventions, including plant varieties, patentable. Turkey's Seed Registration, Control, and Certification Law does not ban unauthorized propagation of foreign firms' proprietary seed. The patent term in Turkey is only 15 years from the date of filing. New draft patent legislation was presented to Parliament in 1993, but as of October 1993 it was still under consideration. The draft legislation contains

a five-year delay before pharmaceuticals would be covered, as well as compulsory licensing provisions which would limit the economic value of a patent in any case.

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 lack of adequate protection for intellectual property. The U.S. motion picture industry estimates a loss of $35 million per year. It claims 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 estimates losses range from $30 to $40 million annually. The United States has worked closely with Turkish government officials in preparing new intellectual property rights draft laws.

8. Worker Rights

a. *The 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) may not organize unions.

Except in stipulated industries and services such as public utilities, the petroleum sector, protection of life and property, sanitation services, national defense and education, 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. Non-binding mediation is the last of these steps. Once a strike is declared, the employer involved may respond with a lockout. If the 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.

In 1993, the Turkish Parliament ratified seven ILO Conventions, including Convention 87 on labor's freedom of association and right to organize. The government of Turkey has drafted legislation to permit civil servants to organize, but has not yet submitted that legislation to Parliament, pending consultations between the government, employers, and unions. Permission for civil servants to form trade unions will require amendments to the Constitution. 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 strikes are forbidden.

b. *The Right to Organize and Bargain Collectively.*—Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent a union must represent not only 50 percent plus one of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits work unsuitable 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. The Constitution also prohibits children from engaging in physically demanding labor, such as underground mining, and from working at night. The laws are effectively enforced only in organized industrial and service sectors. Unionized industry and services do not employ under-aged children. In practice, many children under 13 work as street vendors, in home handicrafts, on family farms, and in other enterprises.

e. *Acceptable Conditions of Work.*—The Labor Ministry is legally obliged, through a tripartite government-union-industry board, 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 an employer may request. Most workers in Turkey receive non-wage benefits such as transportation and meal allowances and some also receive housing or subsidized vacations. In recent years fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors With U.S. Investment.*—Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		469
Food & Kindred Products	37	
Chemicals and Allied Products	125	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	77	
Other Manufacturing	53	
Wholesale Trade		10
Banking		114
Finance and Insurance		(2)
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		705

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data.

TURKMENISTAN

Key Economic Indicators

[Billions of rubles unless otherwise noted][1]

	1991	1992	1993[2]
Income, Production, and Employment:			
GDP (at current prices)[3]	14.7	302	5,830
By Sector:			
Agriculture	5.7	44.3	875
Industry (incl. energy)	2.5	215.4	3,498
Construction	2.2	25.6	695
Services	4.3	16.7	762
Net Exports of Goods and Services ($ million)	N/A	923.5	642
Labor Force (000's)	1,922.5	1,991.5	2,032
Unemployment Rate (pct.)	1.9	1.2	0.4
Money and Prices:			
Base Interest Rate (pct.)[4]	8–12	16–20	40–45
Personal Saving Rate (pct.)	2–9	4–15	20–45
Retail Inflation[5]	1.89	8.1	14.8
Wholesale Inflation[5]	3.1	10.9	16.6
Consumer Price Index[5]	1.87	8.3	13.2
Exchange Rate (rubles per $): Official	1.75	193	[6]1,036

Key Economic Indicators—Continued

[Billions of rubles unless otherwise noted] [1]

	1991	1992	1993 [2]
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB) [6]	N/A	2,260.5	3,040
Total Imports (CIF) [6]	N/A	1,123.6	2,130
Trade Balance [6]	N/A	1,136.9	910
Imports from U.S. [6]	N/A	35	[7] 17
Exports to U.S	N/A	1	[7] 1
Aid from U.S	N/A	12.7	[8] N/A
Foreign Exchange Reserves	N/A	900	1,000
Balance with U.S	N/A	34	16

N/A—Not available.

[1] Turkmenistan introduced a new currency, the manat, on November 1, 1993.
[2] Figures are for the first ten months of 1993, except where noted.
[3] GDP to be further clarified.
[4] Figures are actual, average interest rates; not changes in them.
[5] Index (1990=1).
[6] As of July 1, 1993.
[7] January–June merchandise trade.
[8] Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.

1. General Policy Framework

Turkmenistan became independent following a referendum on October 27, 1991. Saparmurad Niyazov, head of the Communist Party since 1985 and President since October 1990, when the post was created, was elected president of the new country in a direct election on June 21, 1992. Unchallenged, he won 99.5 percent of the vote. The 1992 constitution declares Turkmenistan to be a secular democracy in the form of a presidential republic. In practice, it remains a one-party state dominated by the President and his closest advisors within the Cabinet of Ministers.

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. He initially stated that for three-to-five years, oil, gas, minerals, and most agriculture, which constitute approximately 80 percent of the economy, would be reserved for state ownership and control. Nevertheless, in late 1992 he announced a leasehold program for development of new agricultural lands by private farmers. In October 1993, he proclaimed that state and collective farm lands would be assigned to individual farmers early in 1994 and that small businesses and industries would be privatized beginning in December. Oil, gas, and minerals, however, are expected to remain government controlled for some time to come, although joint ventures between government and foreign firms are encouraged in these sectors as a matter of policy.

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 15.5 trillion cubic meters of natural gas and 6.3 billion tons of oil reserves. Natural gas production and processing constitutes more than 70 percent of industrial output. Turkmenistan also has large deposits of various minerals and salts, with indications of commercially exploitable gold, silver, and platinum deposits.

Turkmenistan's economy is markedly agricultural, with agriculture accounting for nearly half of GDP and more than two-fifths of total employment. Cotton is the dominant crop, accounting for more than 45 percent of arable land and 56 percent of total agricultural production in 1992. Livestock accounted for 22 percent of agricultural production.

Turkmen farmers rely heavily on irrigation. Agricultural yields are relatively low, due to years of inefficient water use, salinization, inappropriate land irrigation, and over-development of cotton cultivation. The government has steadily reduced the area planted in cotton and encouraged research into more efficient water usage. Plans to charge farmers for irrigation water beginning in January 1993 were postponed due to lack of metering equipment.

The large degree of specialization of the agricultural sector makes food imports essential. In 1992, Turkmenistan imported 32 percent of its grain, 45 percent of its milk and dairy products, 70 percent of its potatoes, and 100 percent of its sugar consumption. To reduce dependence on food imports, the government promotes domes-

tic grain and sugar beet production and is investing in dairy and sugar processing plants and equipment.

The specialization of Turkmenistan's production, and the consequent dependence on imports, make the country vulnerable to external shocks. 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 inter-republican trade affected key sectors of the economy in 1993, including health care, agriculture, and construction. Turkmenistan also remains reliant on transportation and shipping through Russia and other CIS states. Shortages of transport and disruptions of shipping routes hurt both exports and imports during 1993.

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 half of 1993, the modest budget surplus continued, largely due to foreign exchange earnings from gas and oil exports, which make up 85 percent and four percent respectively of the total value of non-agricultural exports. Despite this trend, Turkmenistan is expected to run a budget deficit in 1993, principally as the result of unpaid debts from other former Soviet Union Republics for natural gas shipments.

With respect to monetary policy, the main instruments of credit control include reserve requirements and refinance policy. In practice, however, the level of banks' access to central bank credit is effectively determined by the cabinet of ministers. In principle, foreign companies have access to domestic credit, but they are encouraged to make their own external credit arrangements.

Turkmenistan joined the IMF, World Bank, and European Bank for Reconstruction and Development in 1992. It is a member of the Economic Cooperation Organization (ECO), along with other central and south Asian countries and Iran and Turkey. Turkmenistan became an observer to the GATT in June of 1992.

2. Exchange Rate Policy

On November 1, 1993 the government introduced a new national currency, the manat. The initial exchange rate was set at two manat to one dollar. The government also established a currency bourse to assist in setting the exchange rate for the manat. Three currency auctions are scheduled each week. Prior to the issuance of the new currency, president Niyazov announced that the dollar/manat exchange rate would be adjusted regularly, with other currencies being valued accordingly.

For purposes of trade with Russia, the manat, the dollar, and the 1993 Russian ruble are all equally valid. In principle, all Turkmen importers have access to foreign exchange to pay for imports through local banks. In practice, however, foreign exchange is limited. Private citizens, including businesses, may hold foreign currencies, but the government makes it difficult for investors to remove hard currency from the country. This policy may become a significant impediment to foreign investment.

3. Structural Policies

The government is anxious to attract foreign investments to develop Turkmenistan's substantial energy, mineral, and agricultural resources. Laws on foreign investment, banking, property ownership, and intellectual property rights protection passed in 1992 were intended to attract investors.

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.

The government is drawing up a new law to replace a tax scheme in effect until November 1, 1993, under which a varying proportion of foreign exchange proceeds from the export of certain goods was surrendered to support the government's foreign exchange fund. In place of this implicit tax on exports will be an explicit levy on foreign exchange earnings from exports.

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. Government officials are wary of incurring external indebtedness. Nevertheless, the governments of the U.S. and Turkmenistan signed a $10 million P.L. 480, Title I agreement for FY 93. A new Title I agreement as well as GSM-102 credits are under discussion for FY 94. Turkmenistan also concluded long-term credit arrangements with several European countries during 1993, primarily for the purchase of food, medicine, and some capital goods.

5. Significant Barriers to U.S. Exports

Lack of a freely convertible currency, the absence of an adequate banking system, the rudimentary business infrastructure, and the centralization of decision-making all present obstacles to U.S. exports to the Turkmen market. Both government and individual importers rely heavily on barter trade. With Russia and other states of the former Soviet Union the government has established 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 concluded the first of a network of bilateral economic agreements in 1993. On October 25, a bilateral trade agreement, which provides reciprocal most-favored-nation status, went into effect.

Discussions on a U.S.-Turkmenistan Bilateral Investment Treaty, which would establish a bilateral legal framework to stimulate investment, continued in 1993. 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 generally aimed at supporting production and employment, not exports. Subsidies also go to the energy sector, much of whose production is destined for export.

7. Protection of U.S. Intellectual Property

In September 1992, President Niyazov signed a law on the protection of intellectual property rights. The law should provide adequate protection, but enforcement remains untested. A copyright law is in draft for consideration by parliament. Government officials have indicated that Turkmenistan intends to join major multilateral intellectual property conventions. The U.S.-Turkmenistan Trade Agreement contains commitments on protection of intellectual property.

8. Worker Rights

a. *The 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 1993. Strikes are not prohibited by law, but no strikes occurred in 1993. 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. *The 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 cabinet of ministers. In practice, the workers' 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.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is forbidden by Turkmenistan's constitution.

d. *Minimum Age for Employment of Children.*—The minimum age of employment of children is 16; in a few heavy industries, it is 18. Turkmenistan has compulsory education thr· ·gh 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 make the minimum wage inadequate to support the needs of an average family. 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 ecological 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.*—Direct U.S. Investment in Turkmenistan is limited to one investor, in cooperation with the Ministry of Agriculture, constructing two cotton-processing facilities. There is no indication that,

once operating, conditions of work or rights will be different in these facilities than those in other existing industries.

UKRAINE

Key Economic Indicators

[Billions of Ukraine coupons unless otherwise noted]

	1991[1]	1992[2]	1993
Income, Production, and Employment:			
GDP	262.2	4,220.0	N/A
Real NMP Growth (pct.)	−11.2	−14.0	−14.2
NMP Produced Total	210.6	3,790.7	N/A
By Sector:			
Industry (incl. turnover taxes)	90.8	1,921.5	N/A
Agriculture	60.4	852.1	N/A
Transport and Communication	9.4	177.8	N/A
Construction	29.1	558.7	N/A
Other	21.0	41.2	N/A
Net Exports of Goods and Services	9.0	44.9	N/A
Labor Force (millions)	24.4	24.0	24.0
Money and Prices:			
Personal Savings Rate (pct.)	95.4	[3] 28.5	N/A
Retail Inflation (pct.)	84.2	2,017	N/A
Wholesale Inflation (pct.)	125.4	[4] 2,384	N/A
Consumer Price Index	190.1	[4] 1,445	N/A
Exchange Rate ($/coupon):			
Official	1.72	638.0	[5] 5,970
Parallel	90.0	1,050.0	[5] 31,000
U.S. Aid ($ millions)	N/A	N/A	330

N/A—Not available.
[1] In billions of rubles at current prices, IMF staff estimates.
[2] IMF staff estimates.
[3] Ratio in percentage of disposable income, IMF staff estimates.
[4] Annual average, IMF staff estimates.
[5] As of October 30, 1993.

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-largest in terms of area. Stretching across 603,700 square kilometers, it has a population of 52.057 million (1993), 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 has led to the development of a diversified economy with a strong agricultural and food processing industry, large heavy industries, and a substantial capital goods sector oriented toward military production.

Despite its natural wealth, Ukraine has continued to spiral into hyper-inflation in 1993. According to unofficial Ukrainian estimates, inflation in late 1993 had reached 100 percent per month. In October alone, the coupon/dollar exchange rate plummeted from 15,000 to 25,000 coupons/dollar. The decline of production in all sectors of industry continues, though the rate of contraction appeared to have slowed in some industries in 1993. Fuel supplies continue to be uneven due to Ukrainian indebtedness to Russia for oil and gas delivered during 1993. In spite of the fuel shortage, the 1993 harvest was significantly better than in previous years. The privatization of small-scale enterprises has begun in several cities including Lviv, Khmelnitskiy, Kharkiv, and Zaporizhiya; privatization of state housing is now beginning in every oblast of the country. To date, however, there has been almost no privatization of medium- or large-scale enterprises.

Market-oriented reforms were implemented at a measured pace in 1992 and 1993. Ukrainian officials appeared determined to move towards a more efficient economy

without creating social upheaval, even if this included temporary reliance on administrative planning, the so-called "third way." This policy led to a decrease in industrial production in most sectors, spiralling inflation, little privatization, and overall gridlock in the economy. The former Kuchma government attempted to stabilize the economy in late 1992 and 1993. However, these attempts met with only initial success, and were soon overwhelmed by the weight of collapsing production, ruptured trade links with the former Soviet Union, and, above all, lack of the necessary political will within the President's administration, Parliament, and the Cabinet of Ministers.

Opposition to crucial liberalization and stabilization measures grew during 1993 allowing adoption of several regressive measures, including a mandatory 50-percent conversion of hard currency earnings at a fixed rate of exchange far below the market rate. These steps and the inability of the different governmental structures to cooperate led to increasing dissatisfaction among reform-minded members of the Cabinet and culminated in the resignations of Viktor Pynzenik, First Deputy Prime Minister for Economic Reform, and Prime Minister Leonid Kuchma himself. Since September 1993 the President has directed the economic activities of the government. He has set privatization and combatting inflation as priorities.

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 problems: a complete cut-off in supplies of rubles from the Russian Central Bank and concern over exports of lower-priced Ukrainian goods to other newly independent states. The coupon, or karbovanets, became the sole legal unit of currency on Ukrainian territory on November 12, 1992, when the government eliminated the ruble from use in all cash and non-cash transactions. The Ukrainian government considers the coupon a transitional currency, until the new Ukrainian currency—the hryvnia—can be introduced in 1994.

In August, 1993, Ukraine instituted a multiple exchange rate regime which included a fixed exchange rate to be utilized for some purposes (e.g. mandatory conversion of a portion of enterprises' hard currency earnings) and a "floating" rate to be set at a weekly inter-bank currency auction (for U.S. dollars, German marks and Russian rubles). The floating rate, which reflected the value of "non-cash" coupons in the economy, was typically even lower than the parallel rate (i.e. the rate offered to individuals or enterprises by commercial banks or by street traders).

Hyper-inflation is a reality in Ukraine with prices rising at 100 percent per month in early fall 1993. One consequence of this is a growing divergence between the fixed and floating exchange rates, leading to a reduction in officially registered exports. In response, many industries and reform-oriented economists have called for the elimination of the fixed exchange rate. In an effort to stabilize the currency, the government issued a decree on November 2, 1993 temporarily suspending the interbank currency exchange system as well as other operations involving sales and purchases of foreign exchange.

3. Structural Policies

Legislation has been passed to lay the foundation for a privatization program which would include mass privatization through a system of privatization accounts. Implementation has been slow, however, due to both lack of political will and continued legislative barriers. The existence of a very broad leasing law has eliminated a significant portion of small, medium- and large-scale enterprises from the privatization process. In addition, the Parliament did not adopt a privatization program for 1993 and there are, therefore, no targets for the process.

In 1992 Ukraine undertook significant tax reform, including introduction of a value-added tax, excise tax, enterprise income tax and individual income tax. However, budgetary problems combined with rapid increases in wage payments in 1993 caused the Parliament to reverse the previous decision to tax enterprises on a net income basis and return to the former Soviet system of enterprise taxation. Ukrainian enterprises face a significant tax burden and pay a number of different taxes, including a hidden tax through mandatory conversion of 50 percent of hard currency earnings at a non-market fixed exchange rate. 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 for five years for qualified investments. In response, in late 1993, private and state industry once again spurred efforts to introduce major tax reform.

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 continue to be 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 inter-Republic treaty dated December 4, 1991. In November 1992, 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 to the west, but an increasingly large debt to Russia for deliveries of oil and gas. According to Ukrainian statistics, in mid-1993 the officially acknowledged debt included $626 million to the west, 730 billion rubles to Russia (about $700 million), and 120 billion rubles to Turkmenistan ($100 million). 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. Trade

Ukraine's shortage of hard currency earnings and lack of banking, legal, shipping and other key infrastructure are the most significant impediments restricting U.S. exports to Ukraine. These barriers are further fortified by Ukraine's inexperience in trading in an open market environment and its general unfamiliarity with U.S. suppliers and their products, technology and business practices.

Since gaining its independence, Ukraine has asserted its right to establish and maintain its own system of standards and product certification. In fact, Ukraine is currently developing a wide range of national standards and many of these are being strongly influenced by EU standards. In the interim, Ukraine's domestic production standards and certification requirements are based on those of the former Soviet Union and they apply equally to domestically-produced and imported products. Product testing and certification generally relate to technical, safety and environmental standards as well as to efficacy standards for pharmaceutical and veterinary products. At a minimum, imports to Ukraine are required to meet the certification standards of the 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, i.e. joint ventures, or on wholly owned foreign subsidiaries as long as the goods being imported are for the investor's own use or the enterprise's production needs, such as capital equipment or production inputs.

Imported goods are not considered legally entered until they have been processed through the port of entry and cleared by Ukrainian customs officials. Duties on goods imported for resale are subject to varying ad valorem rates and import license requirements in certain cases.

A broadening of trade and investment relations with Ukraine is a high priority of the U.S. Government and a key to economic reform and development in Ukraine. The U.S.-Ukraine Trade Agreement, signed in June 1992, provides for reciprocal most-favored-nation (MFN) status and establishes a basic framework for broadening this relationship. The trade agreement also provides for the establishment of a bilateral Business Development Committee to facilitate trade and investment.

Going beyond MFN status, the U.S. Government is considering Ukraine for General System of Preferences (GSP) treatment which will enhance Ukraine's hard currency earnings capabilities on exports to the United States. Discussions are continuing on a bilateral investment treaty (BIT) which will establish a legal framework to protect and stimulate U.S. investment in Ukraine. Furthermore, a bilateral tax treaty now being negotiated between the U.S. and Ukraine will provide relief from double taxation of income which will serve to stimulate trade and investment.

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 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 export of many consumer goods.

7. Protection of U.S. Intellectual Property Rights

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 Universal Copyright Convention (Geneva, 1952) and is preparing to join the Bern Convention on Protection of Literary and Artistic works (1971). In addition, in August 1992, the Ukrainian government adopted the Paris Convention for Protection of Industrial Property (March 2, 1883; amended in 1967 and 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). In addition, the Ukrainian Government has committed to improvement of intellectual property right protection in the U.S.-Ukrainian Trade Agreement signed in May 1992.

Two state agencies are working to ensure intellectual property rights: the State Ukrainian Copyright Agency (literary and artistic works) and the State Patent Office of Ukraine (industrial property). A Ukrainian Copyright Law has been drafted by the Ukrainian State Copyright Agency and has been submitted to the Parliament.

8. Worker Rights

a. *The Right of Association.*—A successor to the former Soviet official trade unions, the Ukrainian official trade union, "the Federation of Trade Unions", has began to work independently of the government and has been vocal in opposing draft legislation that would restrict the right to strike Many independent Ukrainian unions have emerged and now provide an alternative to the official unions in most sectors of the economy. Some, such as the Independent Miners' Union of Ukraine (NPGU), emerged out of the former U.S.S.R. independent unions. Independent unions were established in the Black Sea fleet, among the military officers of Ukraine, and among the scientific workers of the Academy of Sciences. In early 1992, the NPGU, the pilots, civil air dispatchers, locomotive engineers and aviation ground crews unions formed the Consultative Council of Free Trade Unions. This entity acts independently of the Federation of Trade Unions. In negotiating wage deals, the government has invited all unions, not just the Federation of Trade Unions, to participate.

Soviet law, or pertinent parts of the 1978 Ukrainian constitution, continue to regulate the activities of trade unions. A new constitution and new law on trade unions are being debated, which will affect the future status and activities of trade unions. In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers (e.g., nuclear power plant employees) from doing so.

The law on labor conflict resolution guarantees the right to strike to all but members of the armed forces, civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). The law prohibits strikes that "may infringe on the basic needs of the population" (e.g., rail and a:. transportation). Strikes based on political demands are illegal. However, this did not stop miners and transportation workers from making political as well as economic demands during their September 1993 strike. The law forbids penalizing union members who participate in strikes. The government has relied on the courts to deal with strikes that it feels have violated the law. The courts, however, have not always ruled in favor of government positions.

Ukraine is a member of the international labor organization (ILO). There are no official restrictions on the right of unions to affiliate with international trade union bodies; the NPGU is a member of the International Miners' Union. The AFL–CIO has a permanent representative in Kiev who interacts freely with the Consultative Council of Independent Trade Unions.

b. *The Right to Organize and Bargain Collectively.*—In accordance with the law on enterprises, joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level, a system that is not clearly defined. Overlapping spheres of responsibility frequently impede the collective bargaining process. The law on labor conflict resolution introduced another bureaucracy, the National Mediation and Reconciliation Service, to mitigate labor-management disputes that cannot be resolved at the enterprise level. The president appoints the head of this service. Collective bargain-

ing law prejudices the bargaining process against the independent free trade unions in favor of the official unions.

There are no export processing zones in Ukraine.

c. *Prohibition of Forced or Compulsory Labor.*—The Ukrainian constitution forbids compulsory labor, and it is not known to exist.

d. *Minimum Age for Employment of Children.*—The minimum employment age is 17. However, in certain nonhazardous industries, enterprises can negotiate with the government to hire employees between 15 and 17 years of age. Education is compulsory up to age 15. The Ministry of Education rigorously enforces the law on education.

e. *Acceptable Conditions of Work.*—In 1992 the government established a countrywide minimum wage, which at the end of the year was significantly below the estimated cost of living. Wages in each industrial sector are established by government agreements with trade unions. All unions are invited to participate in these negotiations. The current law on wages, pensions, and social security provides for mechanisms to index the minimum wage to inflation.

The labor code provides for a maximum of 41-hour work week and at least 15 work days of paid vacation per year. Economic stagnation in some industries (e.g., defense) have significantly reduced the work week for some categories of workers. Gross under compensation for overtime work in some sectors (e.g., railroad workers) has resulted in strikes.

The Ukrainian constitution and other laws contain occupational safety and health standards, but these are frequently ignored in practice. Lax safety conditions were the principal causes of two serious mine accidents that occurred in the summer of 1992, resulting in dozens of casualties. The Labor Ministry is currently rewriting the mine safety law. The NPGU is demanding that the government improve worker safety in the mines.

f. *Rights in Sectors With U.S. Investment.*—There is little or no significant U.S. investment in Ukraine.

THE UNITED KINGDOM

Key Economic Indicators

[Billions of pounds sterling (PS) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1990 prices)[2]	538.7	536.2	545.9
Real GDP Growth (pct.)	−2.2	−0.5	1.8
GDP (at current prices)[2]	518.5	539.6	549.4
By Sector:			
Agriculture	9.2	9.3	9.0
Energy and Water	23.3	23.7	24.3
Manufacturing	113.8	116.1	120.3
Construction	32.9	31.8	30.3
Rents	33.5	37.1	38.1
Financial Services	79.6	84.6	87.0
Other Services	143.8	147.9	150.1
Government, Health and Education	82.4	89.1	90.3
Net Exports of Goods and Services	−6.6	−9.3	−7.3
Real Per Capita GDP (90 PS)	9,352.4	9,276.8	9,412.0
Labor Force (millions)	28.3	28.1	27.8
Unemployment Rate (pct.)	8.1	9.5	10.4
Money and Prices (annual percentage growth):			
M2 Money Supply (bil. PS)	502.1	519.3	540.0
Base Interest Rate[3]	10.5	7.0	6.0
Personal Saving Rate (DI)	9.8	11.3	10.3
Retail Inflation (CPI in pct.)	5.8	3.7	1.8
Wholesale Inflation (pct.)	5.6	3.7	3.9
Exchange Rate (US$/PS)	1.77	1.78	1.48

Key Economic Indicators—Continued

[Billions of pounds sterling (PS) unless otherwise noted]

	1991	1992	1993[1]
Balance of Payments and Trade (billion U.S. dollars):			
Total Exports (FOB)[4]	185.6	192.7	175.4
Exports to U.S	20.0	21.7	21.9
Total Imports (CIF)[4]	210.2	223.9	193.9
Imports from U.S	24.2	24.3	24.7
Trade Balance[4]	-24.6	-31.2	-18.5
Balance with U.S	-4.2	-2.6	-2.8
Foreign Exchange Reserves	37.9	41.7	43.2

[1] Annualized 1993 figures are all estimates based on available quarterly data through July, 1993.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade does not include services.

Source: U.K. Central Statistical Office.

1. General Policy Framework

The United Kingdom has a free market economy and an 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 slowly emerging from recession for more than a year. The government refocused its economic policy after leaving the EU Exchange Rate Mechanism (ERM). Although low inflation remains a priority, growth is now the primary goal. Inflation has fallen substantially in 1993 and is expected to be 1.8 percent for the year. Interest rates have been reduced four percentage points, resulting in a cheaper pound and enhanced international competitiveness.

Real GDP fell by 2.2 percent in 1991 and a further 0.5 percent in 1992. Current forecasts predict positive GDP growth in 1993 of 1.8 percent. Unemployment is currently estimated at 2.9 million.

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 28.9 billion in 1992. The deficit will continue to grow to between 42 and 45 billion pounds in calender 1993.

The Conservative government retains its goal of reducing the basic personal income tax rate to 20 percent as soon as possible. Current tax rates are 20, 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. For companies, the full corporate tax rate of 33 percent applies to those with profits in excess of 1.25 million pounds sterling. Partial tax relief is available to firms with profits of less than 250,000 pounds, bringing their effective tax rate to 25 percent. Profits between these limits are taxed on a formula basis which results in a total corporate tax rate between 25 and 33 percent.

The highly unpopular Community Charge, or poll tax, was replaced by the 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, the British government has tried to reestablish confidence in the financial markets by projecting an image of fiscal responsibility. A spending cap of 243.8 billion pounds is in place for the 1993/94 budget. However, increased unemployment could push spending over this level.

Monetary Policy: The United Kingdom 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.

2. Exchange Rate Policy

Britain reduced interest rates from ten to six percent in January, 1993, taking advantage of its withdrawal from the ERM in September, 1992. Many analysts believe that sterling's two-year membership in the ERM extended the country's recession.

High real interest rates required by ERM obligations and the ensuing loss of economic output and demand were successful at lowering Britain's rates of inflation during and after ERM membership to thirty-year lows. Under its new independent monetary policy, UK Treasury adopted a system of "monitoring" narrow and broad money growth, asset prices, and the exchange rate as an inflation gauge. Sterling's trade-weighted exchange rate index initially fell from 92 in 1992 to 76 in early 1993 and has hovered at around 80 for most of 1993. Some currency dealers believe that sterling will continue depreciating against the dollar if dollar interest rates move upward while sterling will continue appreciating against the Deutschemark as German interest rates fall. This may leave the trade-weighted index of sterling unchanged.

While the rate of inflation has begun increasing, most analysts believe that it will remain low well into 1994. The only indicator of inflationary pressure is narrow money growth, which is expanding above its one to four percent "monitoring" range. The assumption is that monetary policy will change only when a set of factors indicate inflationary pressure. The Prime Minister as well as both the previous and the current Chancellors of the Exchequer have publicly disavowed any return to the ERM in the foreseeable future. Most analysts believe that to mean that sterling will not reenter the ERM until at least 1996, near the end of the current Parliament's anticipated term of office.

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, aeronautic, electrical power, and water industries were also privatized. The coal, rail and bus transportation industries are in the process of being privatized now. 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 United Kingdom has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries. The British government is an active but cautious participant in the development of a coordinated debt strategy. British banks are prominent members of bank advisory committees on LDC debt. They recognize a need in many countries for debt and debt service relief, but generally object to mixing new money with debt relief.

5. Significant Barriers to U.S. Exports

Although structural reforms have made it easier for U.S. exporters to enter UK markets, some barriers still remain in telecommunications, the energy industry, and potentially in utilities procurement. Problem areas and specific regulations resulting in trade barriers in these areas are profiled below.

Broadcasting and Telecommunications: The 1990 Broadcasting Act, which implements the 1989 European Union 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. Prior to the Act, the UK operated under an informal policy of an 86 percent UK–EU/14 percent foreign program content quota. The practical effect of the Act relaxed these limits, given that the EU directive calls for a majority (50 percent) of EU content "where practicable".

The British government opened the UK domestic telephony market for competition in 1991 when it ended the British Telecom/Mercury duopoly policy. However, some market barriers remain, including the high cost and difficulty of negotiating interconnection agreements with British Telecom, number portability (ability to keep phone number when changing service provider), and other equal access issues. The UK telecommunications regulatory agency, OFTEL, is in the process of reviewing these issues and expects to announce new policies on interconnection and number portability early in 1994. OFTEL states that equal access issues will take somewhat longer to resolve. The UK government has yet to make the equivalency determination required before declaring the U.S. market open for international simple resale (leasing international circuits in bulk and reselling the capacity to consumers).

It states that it is unlikely to permit new entrants to operate international long distance services using their own facilities in the near term.

Offshore Oilfield Contracts: In 1985, the Offshore Supplies Office (OSO) of the UK Department of Trade and Industry 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 U.S. firms.

In response to repeated U.S. government high-level questions based on U.S. oil industry anecdotal allegations, senior British officials now claim to promote "a level playing field". British officials have consistently offered to investigate any specific complaints from the U.S. government or U.S. companies.

Utilities Procurement: The UK implemented the EU Utilities Directive in 1992 by instituting a series of regulations based on the Directive. The regulations allow government-owned and private utilities to favor EU over foreign suppliers.

6. Export Subsidies Policies

The Conservative government opposes subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. The Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States, was partially privatized in 1991.

Although much of ECGD's business is conducted at market rates of interest, it does provide some concessional lending in cooperation with the Overseas Development Administration (ODA, the British equivalent of our own Agency for International Development) for projects in developing countries. Occasionally the United States objects to financing offered for specific projects.

The UK's development assistance (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 the 1987 "Arrangements on Officially Supported Export Credits" with the UK and other developed countries. It appears 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 Bern Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention and the Universal Copyright Convention.

New copyright legislation simplified the British process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to the U.S. positions.

8. Worker Rights

a. *The Right of Association.*—Unionization of the work force in Britain is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively.*—Over 10 million workers, about 38 percent of the work force, are organized. Employers are not legally 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 1993 Trade Union Reform and Employment Rights Act limited that prohibition under certain special circumstances in matters short of dismissal.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract.

During the 1980s, Parliament eliminated immunity from prosecution in secondary strikes and in actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets. Many unions claim that workers are not protected from employer secondary action such as work transfers within the corporate structure.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is unknown in the UK.

d. *Minimum Age for Employment of Children.*—Children under the age of 16 may work in an industrial enterprise only as part of an educational course. Local edu-

cation authorities can limit employment of children under 16 years old if working will interfere with a child's education.

e. *Acceptable Conditions of Work.*—With the exception of wages in agriculture, the setting of minimum wages in the UK was abolished by the Trade Union Reform and Employment Rights Act of 1993. 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 investigative committees, does research and trains workers. The Health and Safety Executive (HSE) enforces health and safety regulations and may initiate criminal proceedings. This system is efficient and fully involves workers' representatives.

f. *Rights in Sectors With U.S. Investment.*—All U.S. corporations operating within the UK are obliged to obey legislation relating to worker rights.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		13,153
Total Manufacturing		20,328
Food & Kindred Products	2,273	
Chemicals and Allied Products	3,517	
Metals, Primary & Fabricated	1,285	
Machinery, except Electrical	3,443	
Electric & Electronic Equipment	2,003	
Transportation Equipment	1,833	
Other Manufacturing	5,974	
Wholesale Trade		3,922
Banking		2,547
Finance and Insurance		32,013
Services		3,826
Other Industries		2,055
TOTAL ALL INDUSTRIES		77,842

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

UZBEKISTAN

Key Economic Indicators

[Billions of rubles unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP Growth (pct.)	−0.5	−9.6	1.0
GDP (at current prices)	61.5	416.9	N/A
By Sector:			
Agriculture	22.1	149.5	N/A
Manufacturing	17.3	119	N/A
Construction	5.4	54.4	N/A
Other Services	16.7	94	N/A
Real Per Capita GDP	N/A	$860	N/A
Labor Force (000's)	10,215	10,393	10,631
Unemployment Rate	N/A	N/A	5.6
Money and Prices (annual percentage growth):			
Retail Inflation	N/A	800	N/A
Wholesale inflation	N/A	2,700	N/A
Exchange Rate ruble/$:			
Official Rate[2]	20–90	90–1,000	1–2,800

Key Economic Indicators—Continued

[Billions of rubles unless otherwise noted]

	1991	1992	1993[1]
Parallel		90–1,000	1–10,000
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB)[3]	N/A	869	N/A
Exports to U.S	N/A	0.763	5.0
Total Imports (CIF)[3]	N/A	929	N/A
Imports from U.S	N/A	2.1	6.0
Aid from U.S	0	7.4	8.9
Trade Balance (with CIS)	N/A	−200	N/A
Trade Balance (non-CIS)	N/A	−60	N/A
Balance with U.S	N/A	N/A	−1.0

N/A—Not available.

[1] Estimated.

[2] Number indicates a range over the year.

[3] To countries outside the former USSR.

Statistics above are based on estimates of Goskomprognostat (State Statistics and Forecasting Board).

1. General policy framework

The Republic of Uzbekistan has been independent only since 1991. Before independence, it was one of the poorest of the Soviet republics. With approximately seven percent of the population of the Soviet Union, it generated only about three percent of the USSR GDP in 1990. While its economic potential in the medium- and long-term is promising, it remains poor, with an estimated per capita income of only $860 in 1992. While the current government is committed to establishing a market economy to replace the centralized state economy of the Soviet era, it is attempting to centrally manage this process to avoid social dislocation and potential civil unrest. The result has been slow and incomplete reform. Restructuring of the economy and the breakdown of trade links with the other republics of the former Soviet Union resulted in a decline in GDP in 1992 of approximately 10 percent. However, this rate is lower than in most CIS states.

The economy of Uzbekistan is primarily based on agriculture and food processing, with these sectors contributing approximately 50 percent of GDP. Cotton accounts for 40 percent of agricultural production; Uzbekistan is the world's fourth largest producer of cotton. Industry, other than food processing, accounts for approximately 25 percent of GDP, with construction and services making up the difference. Much of industrial production is linked to agriculture, including cotton harvesting equipment, textile looms and chemical fertilizers. The country is also the world's eighth-largest producer of gold and has rich reserves of uranium, silver, copper, lead, zinc, wolfram and tungsten. Large reserves of natural gas and oil promise to make Uzbekistan energy self-sufficient by 1996.

Uzbekistan's need to import foodstuffs, particularly wheat and other grains, will provide a continuing market for U.S. grain exports, which have in some years reached as high as three million tons. The government's priority investment sectors are agricultural processing, the energy sector and tourism. All three of these areas offer good prospects for both U.S. exports and investment over the coming years. At the same time, the slow pace of privatization, unclear and changing laws on property and foreign investment, and general economic and political uncertainty leave foreign investors cautious. U.S. Overseas Private Investment Corporation insurance is available, following a bilateral agreement signed in 1992. In 1993, the United States and Uzbekistan concluded a bilateral trade agreement. Discussions are underway on a bilateral investment treaty.

Fiscal policy: With independence, Uzbekistan lost budget subsidies from Moscow that accounted for approximately 20 percent of the republic's budget. The government deficit was estimated to be approximately ten percent of GDP in 1992, with a surplus of about four percent predicted for 1993. Heavy expenditures on food subsidies and other social safety net programs account for a large part of national expenditures. The deficit in 1992 was covered primarily through the sale of government bonds to the general public and central bank credits. Foreign trade credits (of up to $950 million) for purchases of foodstuffs also contributed. These credits were covered by an estimated $200 million in gold reserves deposited in foreign banks.

Monetary policy: Unwilling to agree to Russian requirements on the future operation of the ruble zone, Uzbekistan left the zone in November 1993, necessitating the introduction of a transitional currency, the som-coupon. The only real tool of monetary policy available is government credit creation, and apparently large amounts have been extended off-budget. Negative real interest rates on government credits to state enterprises fed inflation and discouraged the kind of restructuring needed for the state owned enterprise sector.

2. Exchange Rate Policy

Until the July 1993 Russian withdrawal of pre-1993 banknotes, Uzbekistan's Central Bank weekly set the local ruble/dollar exchange rate at close to the auction/market level determined in Moscow. However, a local black market for foreign currency existed because of strict local controls on availability of foreign currency and the population's desire to acquire dollars for international travel or as a hedge against the depreciating ruble. These same controls also led to a ruble outflow to Russia, which helped to feed inflation there and contributed to Russia's decision in July 1993 to bar access of Uzbekistan and other CIS states to supplies of its 1993 "new ruble." From July, the exchange rate on the old ruble versus the new ruble began to depreciate. When it became clear in November 1993 that Russia was not likely to provide Uzbekistan with the supply of new ruble banknotes needed for Uzbekistan to join the "new ruble zone," and after Turkmenistan introduced its own currency, the manat, the pre-1993 Russian ruble's value plummeted in Uzbekistan, falling on the black market from 2,500/$1 to 10,000/$1 in a matter of weeks.

Beginning in October 1993, the Central Bank held to artificially low ruble/dollar rates, which were roughly half the black market rates. The government introduced a transitional independent currency, the som-coupon, on November 15. Since its introduction, the som-coupon has traded on the black market far below its official parity with the dollar and Russian ruble. The government plans to introduce a permanent national currency during 1994, and asserts that the introduction, when it occurs, will not be confiscatory and will replace the ruble at a fixed ratio, although there are certain to be limitations on the amount of rubles a citizen is able to exchange.

3. Structural Policies

There is no well-defined system for government purchases of foreign goods. Purchases in many cases tend to be based more on established relationships between government officials and foreign firms and less on price competition. However, efforts are being made to introduce a tendering system for major purchases. An international tender to sell rights for oil/gas exploration on a number of land parcels was successful in Fall 1993.

The government traditionally used subsidies to keep prices on food and consumer goods at low levels. Over the past year, the government has freed most prices, except those on a few food products, including flour, bread, oil and rice. Prices of food and consumer goods in the private sector markets and commercial stores are purely market determined at this time.

Tax policies are still very much in flux and it is often difficult to determine their impact on foreign trade. Local enterprises and organizations engaged in commercial activities are subject to a complicated array of income tax, value-added tax, excise tax, property tax, tax on exported raw material resources and production, and a high 35 percent foreign currency revenue (not profits) tax. The income of joint ventures with a foreign share of at least 30 percent is taxed 10 percent (18 percent if foreign share is less). However, joint ventures in priority investment sectors, such as agricultural or consumer goods production, medical equipment, agricultural equipment and mining are entitled to a two-to-five year income tax holiday. Tariff-free import of most commodities through the end of 1993 was instituted to increase the local supply of consumer goods, but strict controls on government supplies of foreign currency for imports remained in place.

To avoid export and income taxes, many firms engaged in foreign trade arranged barter exchanges. In 1992, barter accounted for approximately 50 percent of all foreign trade. In mid-1993 a ban on barter was introduced, though a number of sectors of the economy, including construction materials and energy, were exempted. The ban has not been very effective.

4. Debt Management Policies

Uzbekistan only over the last year has begun to take on foreign debt, primarily through trade credits and bilateral loans advanced by an increasing number of countries, including the U.S. (Short-term EXIM and modest CCC credits), Turkey, Germany, France, Spain, India, Indonesia, and Switzerland. Uzbekistan improved its overall credit-worthiness when in November 1992 it signed the "zero option" agree-

ment which relieved it of its share of the external debt of the former Soviet Union. In some cases, Uzbekistan has provided gold deposits as collateral for trade credits and loans. It is too early to judge the country's repayment performance.

Uzbekistan became a member of the World Bank and IMF in September 1992. It is also a member of the European Bank for Reconstruction and Development (EBRD). All three of these International Financial Institutions (IFI) now have offices in Tashkent. The World Bank recently approved a $21 million technical assistance loan for use over a three-year period in priority sectors of privatization and enterprise reform, legal infrastructure development, poverty monitoring, and development of sector strategies for energy and telecommunications. Uzbekistan and the IMF continue to discuss the possibility of a Systemic Transformation Facility (STF), though differences over the speed of reform have thus far prevented agreement.

5. Significant Barriers to U.S. Exports

The Ministry of Foreign Economic Relations continues to control many aspects of international trade sector, though there seems to be substantial uncontrolled, cross-border trade with neighboring republics.

The Government of Uzbekistan seeks to attract foreign investment, in particular through joint ventures, which can provide the technology and financing necessary for accelerated development of priority sectors. The government seeks to reduce the level of imports, and concentrates its limited foreign currency reserves on essential imports such as foodstuffs, pharmaceuticals, and petroleum products, construction materials, and machinery. While the number of joint ventures with foreign participation has increased dramatically in the last year, the number of ventures actually operating remains small.

Lack of local credit mechanisms, inexperience with trade, banking and international finance, and non-standard accounting practices inhibit expanded foreign trade relations. Statistics and basic economic data are often difficult to acquire. Legislation on foreign trade, taxes and investment policy change frequently, with important issues often left subject to subsequent actions/decisions by the parliament or cabinet of ministers, thus introducing considerable uncertainty.

Import licenses: Formal import licenses are required for importation of pharmaceuticals, medical equipment, chemical pesticides, audio and video media, and films. Foreign currency purchase restrictions also serve as a barrier to imports by local enterprises and individuals. Import duties on many products were suspended through January 1, 1994, and may well be extended for a longer period.

Services barriers: Foreign company activity in the services sector remains limited, making assessment of barriers difficult. Generally attractive legislation may obscure specific barriers which may be raised by state agencies responsible for licensing or otherwise authorizing activities of foreign companies. Under current legislation, foreign banks may be registered by the central bank to conduct banking operations and participate in commercial bank joint ventures. Foreign insurance companies are limited to participation in joint ventures, which must be registered by the state insurance company.

Standards, testing, labelling, and certification: Many standards and testing requirements are on the books from the Soviet period, but in most cases they are ignored. Testing and certification of drugs is handled more carefully, though local testing has been proven in at least one case to be faulty. New regulations on certification and standards are currently being considered. The agency responsible for these issues will be the center for standards, metrology and certification under the Cabinet of Ministers. Drug certification is handled by the Ministry of Health.

Investment Barriers: The government has identified a number of sectors as priority targets for both local and foreign investment. These sectors include agricultural and textile processing, mining, oil/gas production and tourism. It offers incentives such as tax holidays for investments in these sectors. One hundred percent foreign equity participation is allowed, though rarely encountered, given the advantages of local partner participation. For some industrial investment projects, the government has encouraged high local content but no firm requirements have been established to date. While repatriation of profits in theory is allowed, foreign currency restrictions and bureaucratic complications exist which could make this difficult. Land cannot be privately owned in Uzbekistan, although it can be leased and use-rights can be inherited. All investments must be approved by the government, through a committee of Ministry and Council of Ministers representatives. Large investment projects must receive the approval of the president. Corruption is widespread and has discouraged some foreign investors and traders from involving themselves in Uzbekistan.

Government procurement practices: Much of Uzbekistan's trade with other states of the former Soviet Union is governed by bilateral agreements that provide for

counter-trade in essential commodities such as petroleum products, food and grain, fertilizers, metals, and cotton fiber. These bilateral agreements and efforts to forge closer economic integration with Russia, Kazakhstan and other central Asian states may pose an obstacle to U.S. Exports in some sectors. Noncompetitive bidding is still common, with trade deals often based on relationships between government officials and foreign firms. However, some efforts are being made to introduce competitive bidding and tendering.

Customs procedures: Customs procedures are bureaucratic, often arbitrary and sometimes complicated by corruption.

Infrastructure: Basic infrastructure in Uzbekistan poses some complications for foreign trade and investment. A significant inflow of capital investment will be required in many sectors before Uzbekistan attains western standards. Uzbekistan is a land-locked country whose main trade routes now run almost exclusively through Russia, which complicates trade shipping. The Central Asian states are seeking to cooperate in establishing alternative rails and road routes to regional seaports, through Iran and Turkey to the Persian Gulf and the Mediterranean Sea. The country has an extensive system of roads and railways though their condition has deteriorated over past years, due to lack of investment for upkeep. Passenger air links are now available to Europe, South and Southeast Asia, China, Israel and the Middle East, and a number of foreign carriers now have flights to/from Tashkent.

Telephone lines are extremely poor, making intra-city as well as inter-city communication by telephone or fax extremely difficult. Satellite and cellular telephone service is available commercially, and some express mail and package delivery services are operating in Uzbekistan. (Express mail deliveries between Uzbekistan and the United States generally take four to seven days.) An American-Uzbek joint venture now offers cellular telephones services in Tashkent and plans to expand to other cities.

6. Export Subsidies Policies

Uzbekistan has no organized system of export subsidies. Although the government encourages exports as a source of foreign exchange, some exports, such as cotton, are actually taxed. Government controlled allocation of enterprise credit gives preferential treatment to enterprises with export potential, although there is no organized credit program.

The Ministry of Foreign Economic Relations controls much of the export activity through a system of export licenses, which allows it to determine in most cases the price charged for exports. While the number of commodities that require such licenses has been reduced over the past year, the country's most significant exports are still subject to these controls. Uzbekistan is not a member of the GATT subsidies code. It has expressed interest in becoming a GATT observer, but has not yet undertaken the necessary steps to do so.

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, particularly involving western films, music cassettes, computer software and clothing trademarks. Most of the products involving such violations are imported from other Asian countries well-known for IPR infringements.

A working group has been named in the parliament that is currently in the process of drafting Uzbekistan's first law on protecting intellectual property, which reportedly draws heavily from the current Russian law, though contains articles specific to Uzbekistan's local conditions and its legal needs. The country is already drawing from western, including American, expertise and advice on IPR protection.

8. Worker rights

a. *The Right of Association.*—Uzbekistan law specifically proclaims that all workers have the right to voluntarily 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. To date, the de facto centralized trade union structure has not changed very much following the shift of power 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 was quiet in 1993.

b. *The Right to Organize and Bargain Collectively.*—Unions are empowered to conclude agreements with enterprises. However there is still no concept of unions carrying out adversarial negotiations with private employers. While the private sec-

tor is growing, the state is still the major employer, and the unions function more like professional associations than adversarial groups with a conflict of interests against the state.

c. *Prohibition of Forced or Compulsory Labor.*—Uzbekistan's constitution specifically prohibits forced labor.

d. *Minimum Age for Employment of Children.*—Officially, the minimum working age is 16. Fifteen-year-olds can work with permission, but have a shorter work day. However, children much younger are frequently out in the cotton fields, helping their families with the harvest.

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.*—U.S. investment is too limited at this time to permit comment on any differences.

LATIN AMERICA

ARGENTINA

Key Economic Indicators

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

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP (at current prices)[2]	189	226	244
Real GDP Growth (pct.)	8.9	8.7	5.0
GDP by sector (percent/GDP):			
Agriculture	8.5	7.8	7.0
Manufacturing	27.4	27.0	27.5
Mining	2.3	2.3	2.3
Services	54.8	55.4	56.0
GDP Per Capita (U.S.$)	5,435	6,932	7,715
Labor Force (000s)	12,870	13,126	13,847
Unemployment Rate (percent)	6.9	6.9	9.9
Money and Prices (annual percentage growth):			
Money Supply (M1)[3]	174	48	28
Commercial interest Rates on 180 Day Deposits (pct.)[3]	7.5	8.0	6.0 (9/93)
Savings Rate (pct. of GDP)	13.3	13.1	13.5
Investment Rate (pct. of GDP)	14.6	16.7	18.0
Wholesale Inflation[3]	57	4	3
CPI, percent change[3]	84	18	8
Exchange Rate ($/peso):[4]			
—official	.9552	.9300	.9980
—parallel	.9552	.9300	.9980
Balance of Payments and Trade:[1]			
Total Exports (FOB)[5]	12.0	12.2	12.7
Exports to U.S. (FOB)	1.2	1.4	1.5
Total Imports (CIF)	8.2	14.9	15.3
Imports from the U.S. (FAS)[6]	1.9	3.0	3.5
Aid from the U.S. ($ million)	1.2	1.1	1.7
External public debt[7]	57.2	56.2	56.0
Debt service payments[8]	5.2	4.2	3.3
Gold and FOREX reserves	9.0	12.5	16.0
Trade Balance[6]	3.7	−2.6	−2.8
Balance with the U.S.[6]	−0.63	−1.8	−2.2

[1] Figures for 1993 are Embassy estimates.
[2] Figures provided in nominal GDP are virtually the same in dollars or pesos after 1991 when the convertibility plan took effect, linking the peso at the rate of one to one with the dollar.
[3] End of period.
[4] Average for the period.
[5] Based on official Argentine Government data.
[6] Based on U.S. Department of Commerce data.
[7] Includes interest arrears.
[8] Includes net debt service paid by public sector to international financial institutions and on Government of Argentina Foreign Currency Bonds.

1. General Policy Framework

Argentina's far-reaching economic reforms, which began in 1989 under President Carlos Menem, have yielded impressive results. In 1992 real GDP grew by nearly nine percent, and for 1993 the inflation rate is projected at less than 10 percent: a major accomplishment given Argentina's experience with hyperinflation only a few years ago. Meanwhile, the opening of the economy to international competition through large reductions in tariffs and other trade barriers, coupled with a stable exchange rate, has resulted in a boom in imports, particularly from the United States. For the period January through July 1993, Argentina's trade deficit with the United States totalled over $1 billion.

The public sector budget has been in the black for the past two years—a result of more efficient tax collection, economic activity providing a strong tax base, and large infusions of revenue from the sale of state industries. A small surplus was again forecast for 1993, in spite of an increase of nearly $4 billion in pension payments. Improved tax revenues and proceeds from the privatization of the state oil firm YPF largely made this possible.

The government has also eased the tax burden on business and industry by eliminating charges on bank debt, freight, shipping, and foreign currency transactions. In the process, the tax burden was shifted to the consumer through increases in the VAT and personal income tax rates.

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991 the exchange rate of the Argentine peso is fixed to the dollar at par value. Through the first nine months of 1993, the Central Bank bought $2.2 billion, selling an equal amount of pesos.

2. Exchange Rate Policy

There are no exchange controls in Argentina; foreign currency may be bought and sold freely from banks and brokers at market prices. The Convertibility Law, however, requires the Central Bank to sell dollars at a fixed rate of one peso to one dollar. The Bank buys dollars at a rate of 0.998 pesos per dollar.

The fixed exchange rate, which some observers believe has led to an overvalued peso, and the release of pent-up demand stemming from the overall economic recovery have made imports increasingly competitive. Accordingly, the value of U.S. exports to Argentina nearly tripled from 1990 to 1992, with further growth forecast for 1993.

3. Structural Policies

The Menem Administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and exposed to international competition. The government's role in the economy has diminished significantly through the privatization of most state firms, including the oil firm YPF in mid-1993. Meanwhile, the authorities have eliminated price controls on all but a few goods in the marketplace.

The opening of the Argentine economy has resulted in increased imports, particularly from the United States. Capital goods are especially in demand as firms shed old equipment and tool up to increase their productivity and competitiveness. The ever-increasing trade deficit led the government in late 1992 to implement measures designed to stem the tide, at least partially. This included increasing the statistics tax on imports from three percent to ten percent. In 1993 the authorities went further and placed higher duties on various textile imports which, the government claimed, were being sold in Argentina below cost. The government also imposed quotas on certain Brazilian goods, such as two-door refrigerator/freezers and paper products because of oversupply of the market. The government says that these are temporary measures which are GATT-consistent; the reduction in the statistics tax on capital goods is but the beginning of their elimination.

4. Debt Management Policies

The government has aimed to reduce the external debt burden through participation in the Brady Plan as well as through a Paris Club rescheduling. It has also carried out debt/equity conversions to the tune of $3.4 billion in 1992. Accordingly, Argentina has improved its external situation considerably. From 1989 to 1993 (projected), Argentina's debt service fell from 101 percent to under 50 percent of exports of goods and non-factor services. Total public sector foreign debt (over 90 percent of Argentina's total obligations) came to $56.2 billion at the end of 1992.

The IMF, World Bank, and the Inter-American Development Bank (IDB) have been major sources of funds for Argentina. Currently Argentina is in the second year of a three-year IMF Extended Fund Facility (EFF) which could disburse up to

2.5 billion SDRs. Both the World Bank and IDB will likely obligate approximately $1 billion annually in 1993–1994.

5. Significant Barriers to U.S. Exports

The ongoing reforms have opened the Argentine economy to foreign producers. The authorities have eliminated the import licensing system. Since 1990, the average tariff on imports has fallen from nearly 29 percent to around 10 percent, although many imports must pay a higher surcharge (the "statistics tax"). Tariffs are as low as zero on capital goods and 0.5 percent on raw materials. American exports to Argentina have risen dramatically over the past few years.

Barriers to U.S. Exports: Despite the generally favorable environment for foreign goods in Argentina, there are still problems. In September 1993, responding to what it considered widespread "dumping" of apparel, particularly from the Far East, the authorities imposed import surcharges on an array of clothing, rugs and textiles.

In addition, Argentina maintains a complicated quota system for automobiles, but its scope is narrowing, and the number of foreign-manufactured vehicles on the roads is increasing.

Services Barriers: There are some barriers in the services sector as well. For example, foreign-based advertising is effectively barred in the broadcast media since fifty percent of the participants in the production must be Argentine.

Foreign banks resident in Argentina may not freely open branch offices and no new banking licenses have been issued for many years, which limits entry to acquisition of existing banks. Furthermore, government bodies and state agencies must direct their business to public banks, although this stipulation's importance is declining, given the ongoing privatization program. Despite these limitations, U.S. banks are well represented in the country and include some of the more dynamic players in the financial markets.

The authorities eliminated the tax on outgoing air courier shipments in July 1993.

Investment Barriers: There are virtually no barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange require no government approval.

Argentina has ratified a Bilateral Investment Treaty with the United States. The U.S. Senate ratified the Treaty in November, 1993. Final steps are now underway to bring the treaty into force. Foreign investors enjoy national treatment in all sectors except shipbuilding, fishing, uranium mining, nuclear power generation and any businesses along Argentina's borders (except mining).

Government Procurement Practices: "Buy Argentina" practices have been virtually abolished. A preference for Argentine sources will be shown only when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are generally extensive and time consuming, thus raising the costs for importers, although installation of an automated system has eased the burden somewhat.

6. Export Subsidies Policies

Argentina is a member of the GATT Subsidies Code and also has a bilateral agreement with the United States to eliminate remaining subsidies for industrial exports.

7. Protection of U.S. Intellectual Property

Argentina officially adheres to most treaties and international agreements on intellectual property, including the Paris Convention for the Protection of Industrial Property (Lisbon Text and non-substantive portions of the Stockholm Text), the Brussels and Paris Texts of the Bern Convention, the Universal Copyright Convention, the Geneva Phonogram Convention, the Treaty of Rome and the Treaty on the International Registration of Audiovisual Works. In addition, Argentina is a member of the World Intellectual Property Organization. However, Argentina was placed on the Special 301 Watch List in 1992 because of the lack of patent protection for pharmaceuticals.

Patents: Argentina's patent law, dating from 1864, is the weakest component of the country's IPR regime. It specifically excludes pharmaceutical "compositions" from patent protection (costing U.S. drug firms hundreds of millions of dollars in sales lost to pirates). Furthermore, the law contains stringent working requirements and allows a maximum patent term of only 15 years. The Menem Administration submitted a draft of a new patent law to Congress in 1991. The new law would improve patent protection and extend it to pharmaceuticals, but as of November 1993, the bill was still not acted on.

Copyrights: Argentina's copyright law is generally adequate by international standards, although it does not explicitly protect new technologies such as computer

software or semi-conductors. Bills are currently pending in Congress that would provide protection for software and extend copyright protection for films from thirty to fifty years.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process.

8. Worker Rights

a. *The Right of Association.*—Argentina's labor movement, organized under the umbrella confederation CGT, represents around one-third of the workforce. Unions have the right to strike, subject to compulsory conciliation and arbitration by the Ministry of Labor. Several unions, particularly those representing education workers, struck in 1993 with no interference from the government. Argentine unions are free to associate internationally, and officials play an active role in regional international labor organizations.

b. *The Right to Organize and Bargain Collectively.*—These rights are effectively protected by federal law throughout the country. Complimentary provincial labor laws often go beyond these rights, and anti-labor practices are prohibited. Labor and management are legally bound by collective bargaining agreements which, in theory, set basic wage levels and working conditions on an industry-wide basis. In practice, particularly in the last five years, these agreements have tended to be less global in their scope, with the current trend moving toward company, and in some cases, region-specific agreements. The government's role in this process is limited to ratifying these contracts and conferring legal status.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and is not known to be practiced in Argentina.

d. *Minimum Age for Employment of Children.*—Employment of children under 14, except within the family, is illegal. Minors between ages 14 to 18 may work in certain types of jobs restricted with regard to hours and safety/health conditions, although exceptions are allowed in cases of extreme necessity. The recent increase in the level of unemployment has encouraged some families to seek work for their children, resulting in the illegal employment of minors. A recent study put the number of illegally employed minors (10–14 years) at 200 thousand, or six percent of the child population. Federal and provincial labor authorities are not well-prepared to cope with this because of budgetary and personnel limitations.

e. *Acceptable Conditions of Work.*—In July 1993 the government raised the monthly minimum wage to approximately $200.

Argentine law provides comprehensive protection for worker rights and sets acceptable standards for health and accident protection. The maximum workday is eight hours, the maximum workweek is 48 hours. Premiums are paid for work beyond these limits, which is frequently the case now, as employers seek greater productivity without having to employ new workers. The labor reform bill introduced in Congress in 1993 would give management more flexibility to hire and fire, more control over hours, and vacations, and would further reduce the government's role in labor-management relations. Nationally legislated occupational and health standards are comparable to those of industrialized countries, 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.*—Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S.-owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		499
Total Manufacturing		1,633
Food & Kindred Products	465	
Chemicals and Allied Products	371	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	46	
Transportation Equipment	22	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Other Manufacturing	254	
Wholesale Trade		159
Banking		430
Finance and Insurance		538
Services		60
Other Industries		35
TOTAL ALL INDUSTRIES		3,353

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

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

THE BAHAMAS

Key Economic Indicators

[Millions of U.S. dollars]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP	2,598	N/A	N/A
GDP growth Rate	3.0	N/A	N/A
GDP by sector (% of total):			
Tourism	60	60	60
Finance	10	10	10
Manufacturing	3	3	3
Agriculture/Fisheries	5	5	5
GDP Per Capita	11,633	N/A	N/A
Labor Force	130,100	134,700	N/A
Unemployment Rate (%)	16.0	14.8	N/A
Money and Prices:			
Money Supply (M1)	361.2	377.7	392.3
Commercial Interest Rate (%)	9.0	8.0	7.25
Personal Savings Rate	4.23–6.64	3.29–5.92	2.88–6.13
Investment Rate	N/A	N/A	N/A
Retail Price Index (1987=100)	124.6	131.6	136.6
Retail Price Index (%) change	7.2	3.5	3.3
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (US$:B$)	1:1	1:1	1:1
Balance of Payments and Trade:			
Total Exports (FOB)	319.8	310.2	141.0
Non-oil (est.)	N/A	N/A	N/A
Exports to U.S	488.2	607.2	227.0
Total Imports (CIF)	1,129.9	1,151.3	628.2
Non-oil (est.)	972.7	1,014.7	567.4
Imports from U.S	721.0	712.5	471.2
Aid from U.S	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	129.2	131.3	128.6
Debt Repayment	72.2	77.5	30.3
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	173.9	146.0	252.8
Balance of Payments:			
Current account	−183.6	−110.8	−57.0
Merchandise Exports (FOB)	319.8	310.2	141.0

Key Economic Indicators—Continued

[Millions of U.S. dollars]

	1991	1992	1993 [1]
Merchandise Imports (CIF)	1,129.9	1,151.3	628.2
Services (net)	606.2	716.5	422.0

N/A = Not available.
[1] (Mid-year).

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 ten percent of 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 $712 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. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamas continues to run a fiscal deficit due to investment in capital projects by the government and public corporations. The recurrent deficit for 1992 was $67 million while the overall budget deficit in 1992 was $149 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 1992 national debt was $1.29 billion, up from $1.17 billion in 1991.

Domestic financing through commercial bank loans and the issuance of government securities continued to increase in 1993. The Government introduced new tax measures, including an increase in the gasoline tax of 21 cents per gallon and in the stamp tax by two percent, to generate $60 million in additional revenue. In addition, the FY 1993–94 budget provided for capital revenue of $10 million from the anticipated sale of government assets.

The Bahamas' primary monetary consideration is foreign exchange reserves, needed to purchase essential imports and finance the repatriation of corporate profits. In January 1993, the Central Bank eased the previous 35 percent down-payment required for consumer loans in an effort to stimulate the economy. Individual banks are now free to establish their own conditions for extending consumer credit but requirements for granting such loans remain fairly stringent. The prime lending rate and deposit rate have each been reduced by 0.25 percent, to 7.75 percent and 6.75 percent, respectively. In addition, the Central Bank relaxed foreign exchange controls, thereby making foreign currency transactions easier and less time consuming.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian Government recently repeated its longstanding commitment to maintain parity.

3. Structural Policies

Price controls exist on 13 bread basket items, gasoline, utility rates, public transportation, automobiles, and auto parts. The rate of inflation was estimated at 5.7 percent in 1992, down from 7.2 percent in 1991.

Recognized internationally as a tax haven, The Bahamas does not impose income, inheritance or sales taxes. In December 1992, the Bahamian Government raised the value of goods which may be imported duty-free by each resident following private trips abroad from $100 to $300 per trip. The Government later modified this provision to apply only to people above 12 years of age. Although customs duties generate nearly 70 percent of government income, some customs levies were reduced or dropped altogether to ease the financial burden on Bahamian consumers. The FY 1993–94 budget eliminated customs duties on cooking oil, cocoa powder, and personal hygiene items for women. The Government also increased taxes on cigarettes, spirits, and locally-produced beer. While some of these high customs duties exist to

protect local industries, the primary purpose of most of them is to generate revenue. The principal imports subject to protectionist tariffs include paper products, paints, juices, and bottled water. Customs duties range from one to 200 percent and are applied to nearly all imported goods. Certain items purchased primarily by tourists, such as liquor, photographic equipment, watches, and jewelry, are permitted to be sold in designated "duty-free zones" heavily trafficked by foreign visitors. Other revenue sources include fees on business licenses and work permits, property taxes, and airport and harbor departure taxes. The property tax on undeveloped land owned by non-Bahamians was recently increased from 1.5 percent to three percent of the assessed value of the property, with a further increase to seven percent of assessed value per year scheduled to take effect in 1995. A gambling tax is also levied. To increase revenues, the airport departure tax was raised from $7 to $13 per person in 1991 and from $13 to $15 per person in 1993. The government raised the harbor departure tax from $7 to $20 per person in 1991. Following protests from cruise ship operators, the harbor departure tax was later lowered to $15, effective April 1, 1992.

Although The Bahamas encourages foreign investment, the Government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are designated for possible joint ventures involving Bahamians and foreigners.

A new "One-Stop Shop" for investment established in 1992, the Bahamas Investment Authority (BIA), consolidated the Investment Promotion Division of The Bahamas Agricultural and Industrial Corporation (BAIC) and the Financial Services Secretariat (FSS). The Authority planned to facilitate and coordinate local and international investment and to provide overall guidance to the Government on all aspects of investment policy. By late 1993, the BIA had not yet issued long-promised guidelines on foreign investment.

Other trade and investment incentives include the International Business Companies Act, the Industries Encouragement Act, the Hotels Encouragement Act, the Agricultural Manufactories Act, the Spirit and Beer Manufacture Act, and the Tariff Act. The International Business Companies Act simplifies procedures and reduces costs for incorporating companies. The Industries Encouragement Act provides duty exemption on machinery, equipment, and raw materials used for manufacturing purposes. The Hotels Encouragement Act grants refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels.

The Agricultural Manufactories Act provides exemption for farmers from duties on agricultural imports and machinery necessary for food production. The Spirit and Beer Manufacture Act grants duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in productions. The Tariff Act grants one-time relief from duties on imports of selected products deemed to be of national interest.

The Hawksbill Creek Agreement of 1954 granted certain tax and duty exemptions, on business license fees, real property taxes, and duties on building materials and supplies in the town of Freeport on Grand Bahama Island. These exemptions, which expired in 1990, were initially extended to August 1993. In July 1993, the Government enacted legislation extending most Hawksbill Creek tax and duty exemptions through 2054, while withdrawing exemptions on real property tax for foreign individuals and corporations. The Prime Minister declared, however, that property tax exemptions might still be granted to particular investors on a case-by-case basis.

The Bahamas is a beneficiary of the United States' Caribbean Basin Initiative (CBI) trade program, permitting the country to export most goods duty-free to the United States.

4. Debt Management Policies

The Bahamas' national debt reached $1.29 billion in 1992, with debt service of $77.5 million accounting for 14.5 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 local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exists. 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. *The Right of Association.*—The Constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or Government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *The Right to Organize and Bargain Collectively.*—Workers are free to organize and collective bargaining is extensive for the 30,000 workers (25 percent of the work force) who are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. *Minimum Age for Employment of Children.*—While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 14 years and high unemployment rates among adult workers effectively discourage child employment. Nevertheless, some children sell newspapers along major thoroughfares and work at grocery stores and gasoline stations. Children are not employed to do industrial work in The Bahamas.

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 Act requires overtime payment (time and a half) for hours in excess of the standard. The Act permits the formation of a Wages Council to determine a minimum wage; to date, no such Council has been established.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The Ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		407
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(2)	
Wholesale Trade		128
Banking		2,723
Finance and Insurance		1,260
Services		6

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	(1)
TOTAL ALL INDUSTRIES	4,566

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

BARBADOS

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1990	1991	1992
Income, Production, and Employment:			
Real GDP (1974 prices)	439.6	421.9	400.1
Real GDP Growth (pct. change)	−3.3	−4.0	−5.3
GDP (at current prices)	1,720.1	1,696.3	1,583.0
By Sector:			
Agriculture	79.8	80.5	81.9
Electricity, Gas, and Water	45.9	49.9	50.3
Mining and Manufacturing	128.6	124.7	110.1
Construction	97.0	81.0	50.7
Financial & Business Services	216.5	217.8	226.6
Other Services	640.7	627.5	586.3
Government Services	274.4	265.1	240.2
Per Capita GDP (current US$)	5,750	5,600	5,200
Labor Force (000's, year-end)	124.8	119.8	129.3
Unemployment Rate (pct, year-end)	14.7	20.0	23.0
Money & Prices (annual percentage change):			
Money Supply (M2)	16.2	−4.3	8.2
Consumer Price Index	3.0	6.3	6.1
Exchange Rate (Bdos. dollar/US$)	2.0	2.0	2.0
Trade and Balance of Payments (in millions of U.S. dollars):			
Total Merchandise Exports	210.5	205.8	191.9
of which, to the U.S	27.9	27.8	N/A
Total merchandise imports (CIF)	705.0	697.0	523.9
of which, from the U.S	237.4	252.7	N/A
Balance on Current Account	−34.5	−59.8	275.7
Aid from U.S	0.5	0.7	1.1
Aid from Other Countries	N/A	N/A	N/A
Total External Public Debt	458.4	436.3	438.9
Debt Service Payments	143.7	192.2	180.7

N/A—Not available.

1. *General Policy Framework*

Barbados is a British-style parliamentary democracy. There are three major political parties in Barbados: the Democratic Labour Party (the government), the Barbados Labour Party (the opposition), and the National Democratic Party (not represented in parliament). Parliamentary elections will be held by 1995.

The economy of Barbados is generally market-oriented, although a fairly large public sector exists. Tourism, financial and business services, and agriculture are the main foreign exchange earners, but transportation and communications services are increasingly important sectors. Although mining and quarrying are only a small

part of national output, Barbados produces enough petroleum and natural gas to satisfy almost half of its domestic needs.

Barbados' trade policy seeks to stimulate exports, protect domestic light industry, maintain the government's revenue base through customs and tariffs, and to limit foreign exchange outflows by the use of exchange controls. As of the end of 1991 (the most recent period for which information is available), the United States was the leading source of imports into Barbados, followed by the Caribbean Common Market (Caricom), the United Kingdom, and Canada. Barbados is in the process of removing certain import-substitution protections for local manufacturers to encourage exports.

The Barbadian government generally views foreign investment favorably, especially in areas in which there is no domestic competition. Special licenses and a wide variety of incentives are available for direct foreign investment, especially in tourism, data entry/keyboarding, and the offshore business and financial services sectors. High local factor costs (wages, utilities, taxes) may challenge the viability of many local firms, but the well-educated Barbadian work force is a competitive asset. The government plans to privatize many of its holdings, which may open more opportunities to foreign investors.

Central government deficits have declined sharply in recent years, to about 2.5 percent of GDP in 1992. Deficits are due mainly to spending on education, health and welfare, and other general public service. Wages and salaries and other personnel-related costs comprise the largest budget elements. Deficits are financed primarily by governmental sources including the Central Bank and the National Insurance Service.

In late 1993, the government attempted to affect the amount of money in circulation by allowing banks to increase the rate paid on savings deposits from four to five percent per year. Other monetary tools used in late 1993 included a requirement that purchases of consumer durables could not receive 100-percent financing and would require down payments of up to 20 percent. The government has also recently sold government notes to the public at an attractive interest rate (compared to savings accounts) to reduce money in circulation and finance the deficit.

2. Exchange Rate Policies

Since 1975, the Barbadian dollar (Bdol.) has been pegged to the U.S. dollar at a fixed rate of Bdols. $2.00 to U.S. $1.00. Despite intermittent problems in maintaining adequate levels of international reserves, the Barbadian government has been committed to avoiding a devaluation of the currency. Any impact of this policy on U.S. exports is probably positive, because Barbadians can buy more U.S. products than they would if the currency were devalued.

The Ministry of Finance sets foreign exchange control policy, which is then executed by the Central Bank of Barbados (CBB) through its exchange control division. Barbadian citizens travelling abroad may purchase only the equivalent of U.S. $250.00 in hard currency, and businesses (other than those in the generally-exempt offshore business sector) must apply to the Central Bank for permission to purchase larger amounts for business-related purposes. There is, however, no parallel market for U.S. dollars as they are widely accepted as payment, and the inflow of tourist dollars provides an adequate supply.

3. Structural Policies

All foreign investors are treated equally; there is no discrimination against U.S. investment. Government policy favors productive investment (domestic or foreign), with an emphasis on tourism and manufacturing because of these sectors' employment and foreign-exchange-generating potential. Export-oriented manufacturing firms may receive tax holidays and exemption from exchange controls, and tourism investors can take advantage of tax concessions for construction or major refurbishment of hotels.

Because Barbados imports much of what it consumes, there is significant potential for U.S. exports and direct investment of all types. However, due to the climate of austerity, near-term prospects are limited. On imports, the government maintains a "negative" list of goods for which import licenses are necessary. Some goods cannot be imported for health or safety reasons, while others cannot because local or Caricom production exists.

Quantitative restrictions may also be instituted at any time if a local manufacturer starts production of an imported item. However, pricing decisions are mostly consumer-driven, even though price controls or subsidies apply to some food staple items and pharmaceuticals, and energy. A reportedly sharp decline in foreign exchange reserves in mid-to-late 1993 led the government to tighten credit restrictions on the purchases of consumer durables in December 1993. Most consumer durables

in Barbados are imported and excessive demand for those goods has been blamed for part of the drop in reserve levels. Given the prominence of U.S.-manufactured appliances in the Barbadian market, this development is likely to affect U.S. exports to the country.

The mid-1992 reform of the direct tax system broadened the tax base while lowering maximum rates. A promised reform of the indirect tax system in 1994 may feature a value-added tax to replace the number of indirect taxes now in effect. Barbados' Tax Information Exchange Agreement (TIEA) with the United States makes below-market-rate financing available for certain investments available with so-called section 936 (Internal Revenue Code) funds. The TIEA, together with provisions of the Caribbean Basin Initiative (CBI) legislation, allows business meeting expenses to be deducted against U.S. income taxes. Negotiations with Barbados on a Bilateral Investment Treaty are ongoing. Barbados has concluded seven double taxation treaties including Switzerland (1963), the United Kingdom (1970), Canada (1980), the U.S. (1984 and 1991 Protocol), Finland (1989), Norway (1990), and Sweden (1991). Other tax treaties are under discussion with Latin American, European, East Asian and African countries.

4. Debt Management Policies

Barbados did not have a formal International Monetary Fund (IMF) program in place as of mid-November 1993, but it was independently taking measures that eventually could lead to the reinstatement of an IMF Standby Program or the establishment of an "enhanced surveillance" agreement. Credit controls on sales of consumer durables were aimed at stanching a reportedly sharp drop in foreign exchange reserve levels, and a curb was instituted on the annual salary increases traditionally granted to civil service employees. These measures to stabilize the economy were much in keeping with measures the IMF might require.

In the spring of 1993, Barbados allowed an IMF Standby Program to expire when it did not meet the IMF's qualitative targets for economic performance. In the autumn of 1991, Barbados received IMF funds to handle a shortfall in international reserves. In connection with this funding, Barbados was required to institute economic austerity measures to reduce government spending including halting major capital and public works construction projects, limiting official borrowing, and reducing the level of public sector employment. Much of the deficit was due to spending on wages and salaries for the civil service, and government again took unpopular actions in late 1993 to try to control those costs. The central government deficit was about 2.5 percent of GDP in 1992, well down from the 8.2 percent level in 1990. However, during the first quarter of 1993, expenditures increased 14 percent, while revenues rose only 7.2 percent (compared to the same period in 1992), a situation that may portend an increase in the deficit as a proportion of GDP in 1993.

As in previous periods, the government financed the first-quarter 1993 deficit by borrowing primarily from domestic governmental sources—from the Central Bank and from the National Insurance Board. Barbados' total external debt at the end of 1992 was equivalent to U.S. $529.4 million, most of which is denominated in U.S. dollars. Maintaining the Barbados dollar's value vis-a-vis the U.S. dollar means that the Barbadian government can accurately predict its outflows for repayment. Any devaluation would mean that the government would have to spend more local currency to repay that debt. Repayments of external debt peaked in 1991 and are expected to decline through 1995.

5. Significant Barriers to U.S. Exports

The recent introduction of the Caricom common external tariff will disadvantage non-Caricom exports, including those from the United States, as Caricom goods imported to Barbados will receive preferential tariff treatment. In addition, the Barbadian government maintains a "negative list" of goods for which import licenses are necessary. Some goods cannot be imported for health or safety reasons, and others are prohibited because domestic (or Caricom) production exists. Quantitative restrictions may also be instituted at any time if a local manufacturer starts production of an imported item.

Barbados permits full ownership by foreigners of investments and property. There are no maximum equity position restrictions on foreign ownership of a local enterprise or participation in a joint venture. Non-residents need permission from the Central Bank of Barbados to purchase real property, and permission is usually granted. A property transfer tax is levied on real property transactions conducted by foreigners.

The Barbadian government must approve a license in order for foreigners to invest in utilities, broadcasting, banking and insurance enterprises. To date, however, the Barbadian government has denied requests by investors, domestic or foreign, to

open a television station to compete with the government monopoly. In addition, the government has licensed only one firm to provide basic (local) telephone service. Banking and insurance services are open to foreign direct investment provided the required level of capital, which may be substantial, is invested, and prior government approval is obtained. Stock exchange membership (for traders) is closed to foreigners, and only firms long-established in Barbados may be traded on the Barbados stock exchange.

Travel services are generally open to foreign investment, although the Ministries of Trade and Labour are responsible for determining if the additional competition of another service provider would be detrimental to the financial health of currently-established Barbadian businesses.

The government requires a Barbadian citizen to apply for many of the requisite licenses that allow enterprises to operate, however, which may mean that a foreign firm would be obliged to hire a Barbadian citizen. Work permits for expatriates are granted only if no qualified, locally-based Barbadian is available. Customs clearance proceedings are sometimes burdensome. No special documents are required, but occasionally capricious or dilatory judgments by licensing and customs officials can slow the import of essential inputs.

Government procurement is not handled in a transparent manner; both sole-source and competitive contracts are tendered, and the government is not obliged to accept the lowest bid for public works projects or for critical procurements. The government is obliged to "buy Barbados" when it can, but we have received no complaints by U.S. business of discrimination against U.S. goods in favor of Barbadian goods. Neither offsets nor countertrade are used in making procurements.

Barbados is a member of the GATT Agreement on Standards (standards code), and no standards problems have been reported.

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: a 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 businesses also receive incentives to establish a variety of non-manufacturing offshore operations including 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 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) and the Madrid Accords, and a member of the World Industrial Property Organization (WIPO). The law of Barbados 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: for example, video cassette rentals/sales; tee-shirt production of unlicensed copyrighted images; software piracy; and satellite signal piracy. Enforcement has not been an active priority of the 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 patents 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 ten-year periods. The Copyright Act (1981) protects copyrights during the life of the author and for seven years thereafter. There is no specific statutory ref-

erence 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 WIPO has recommended improvements that are under review. Our embassy has no estimate of lost U.S. import opportunities related to local IPR protection standards.

8. Worker Rights

a. *The Right of Association.*—Barbados has a mature and democratic trade union establishment. Workers in Barbados have the right to form and belong to trade unions, engage in collective bargaining and strikes, and they freely exercise these rights. Strikes are prohibited only in the water and electric utilities and among the security forces. All other private and public sector employees are permitted to strike. There were fewer industrial actions in 1993 than in 1992 as the crisis in the economy and the maturity of local unions combined to reduce the prospects of wage or benefit increases. There are two major unions in Barbados—the National Union of Public Workers (NUPW) and the Barbados Workers' Union (BWU)—and several smaller ones, representing various labor sectors. The Coalition of Trade Unions and Staff Associations, established in 1992, continues to function.

Barbadian trade unions are free to form federations and are affiliated with regional and international labor organizations. The Caribbean Congress of Labor has its headquarters in Bridgetown and conducts many of its programs in Barbados. Barbados is an active member of the International Labor Organization (ILO) and sends a worker delegate to the ILO governing body. The head of the BWU, Leroy Trotman, is the current president of the Caribbean Congress of Labor (CCL) and the International Confederation of Free Trade Unions (ICFTU).

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is provided by law and respected in practice. In 1992, over 25 percent of the working population was organized but job losses in the economy have resulted in a decline in union membership. Normally, wages and working conditions are negotiated through the collective bargaining process. Employers have no legal obligation to recognize unions under the Trade Union Act of 1964, but most do when a majority of their employees signify a desire to be represented by a registered union. While there is no specific law prohibiting anti-union discrimination, the courts provide a method of redress for employees alleging unfair dismissal. The courts commonly award monetary compensation but rarely order reemployment. There are no manufacturing or special areas in which collective bargaining rights are legally or administratively impaired. Barbados has no specially designated export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Barbadian constitution and does not exist.

d. *Minimum Age for Employment of Children.*—The legal minimum working age of 16 is generally observed in Barbados and is reinforced by compulsory education policies requiring school attendance until age 16. Occasionally, especially among migrant worker families, children assist in agricultural production during peak season. There is a small cadre of labor inspectors who conduct spot investigations of enterprises and check records to verify compliance with the law. These inspectors are authorized to take legal action against an employer who is found to have underage workers.

e. *Acceptable Conditions of Work.*—Wages in Barbados are among the highest in the Caribbean. Barbados' per capita GDP exceeds US$ 5,000 per year. Minimum wages are administratively established and enforced by law only for specified categories of workers. The minimum wage for shop assistants (entry-level commercial workers) is marginally sufficient to meet minimum living standards; most employees earn more. The standard legal work week is 40 hours in five days, and the law requires overtime payment for hours worked in excess of that. Workers are guaranteed a minimum of three weeks of annual leave. All workers are covered by unemployment benefits legislation, and by National Insurance (social security). A comprehensive government-sponsored health program offers subsidized treatment and medication. The Factories Act of 1983 sets occupational safety and health standards. Recently, there have been calls from trade unions for the government to increase the number of factory inspectors to better enforce existing and proposed safety and health legislation including follow-up to ensure that problems cited are corrected by management.

f. *Rights in Sectors With U.S. Investment.*—The Barbados economy is small and of limited diversity, but local experience and practice in industrial relations protects worker rights across the economic spectrum. The U.S. is a major supplier of essential commodities and manufactured products. Investors from the U.S. are active in petroleum, electricity generation, food and related products, electrical equipment,

other manufacturing, finance and insurance, and wholesale trade. Workers' rights do not differ among the various sectors in the economy. There is no locally-available data source on the actual amount of U.S. direct investment in these sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		89
Total Manufacturing		7
Food & Kindred Products	3	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		277
Banking		(1)
Finance and Insurance		62
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		507

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

BOLIVIA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:[2]			
Population (millions)[3]	6.65	6.81	6.94
Real GDP (pct. chg.) in 1988 pesos	4.1	3.44	4.0
Real Per Capita GDP[4]	912	958	1,017
Percent change[4]	7.3	5.56	6.5
Nominal GDP[4]	6,067.3	6,527.0	7,059
GDP by Sector (pct.):			
Agriculture	17.6	16.7	N/A
Manufacturing	16.3	16.5	N/A
Trade & Services	24.6	25.3	N/A
Public Administration	9.0	9.2	N/A
Mining	6.2	5.8	N/A
Transportation/Communications	10.6	11.2	N/A
Oil Industry	2.7	2.6	N/A
Others	14.9	12.7	N/A
Unemployment Rate Percent[4] [5]	7.0	5.4	7.4
Money and Prices:[2]			
Money supply (M1) (millions of bolivianos)[6]	1,446.8	1,960.2	1,958.5
Fiscal Deficit Percent GDP[7]	4.3	4.6	6.0
Inflation pct. (12 months)	14.5	10.5	10.0
Commercial Bank Deposits[8]	1,121.1	1,118.4	2,002.0
Interest Rates on U.S. dollars:			
Loans Avg. percent[6]	19.1	17.6	17.4
Deposits Avg. pct.[6]	12.1	11.7	11.4

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
CD Time Deposits Avg. pct.[6]	8.4	7.5	7.4
Exchange Rate (Bs/$):[2]			
Year-end[4]	3.73	4.10	4.45
Average[4]	3.59	3.85	4.28
Trade and Balance of Payments:[2]			
Total Exports (FOB)[9]	848.6	710.3	312.5
Exports to the U.S.[10] [11]	208.7	72.4	86.7
Exports—Natural Gas[9]	232.6	122.8	43.1
Exports—Tin (CIF)[9]	99.7	107.4	46.4
Other Mineral Exports (CIF)[9]	256.4	272.5	132.6
Tot. Imports (CIF frontier)[9]	992.3	1,130.5	561.0
Imports from the U.S.[10] [11]	189.7	95.5	99.4
Current Account Balance[12]	−313.4	−587.0	−542.0
Capital Account Balance[12]	128.7	371.0	210.0
Central Bank Gross Reserves (year-end)[9]	393.0	416.90	383.7
Central Bank Net Reserves (year-end)[9]	200.3	40.0	239.7
Public Foreign Debt[13]	3,582.3	3,784.50	3,743.6
Loan Disbursements[9]	279.4	384.5	141.3
Capital Payments[6]	107.0	106.9	57.2
Interest payments[6]	113.2	99.5	49.2

N/A—Not available.

[1] Estimated data (Central Bank of Bolivia and UDAPE) and/or targets set by the Government of Bolivia and the IMF.

[2] Central Bank of Bolivia.

[3] National Institute of Statistics (based on 1992 census).

[4] Embassy estimate.

[5] Based on surveys of urban areas. Data does not include under-employment.

[6] 1993 Figure as of October 31, 1993.

[7] IMF data. N.B. The IMF estimate of GDP is much lower than that reported by the Central Bank.

[8] Superintendency of Banks.

[9] Central Bank of Bolivia; 1993 figure as of June 1993.

[10] U.S. Department of Commerce.

[11] U.S. Department of Commerce as of June 1993.

[12] Central Bank of Bolivia estimate as of September 30, 1993.

[13] Foreign Debt of the Central Bank of Bolivia.

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, institutionalized and advanced these market-oriented economic reforms. The Sanchez de Lozada Administration, which took office in August 1993, plans to push these market-oriented reforms further with the privatization of the large, state-owned corporations.

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 by about four percent in 1993 with inflation of around 10 percent. Commercial bank deposits have more than tripled since 1989 to over $1.9 billion, 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 five 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 $272 million by October 1993, 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 in 1990.

In compliance with the IMF programs, the government has reduced the budget deficit of the non-financial public sector (which includes central, regional and municipal governments along with the parastatal corporations) to 4.6 percent of GDP in 1992 (as estimated by the IMF). Central government tax revenues came to about 11.1 percent of GDP in 1992. Tax revenues have risen sharply due to better administration and increasing tax rates. The government also receives transfers from public enterprises and from foreign grants (1.5 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 $90 million worth by October 1993 and the interest rate offered on the certificates has declined from 16.2 percent in 1989 to 7.4 percent by October 1993.

The money supply, both M1 and M2, has grown slowly since 1985 with M1 averaging around five percent of GDP. However, the published figure for money in circulation (1.96 billion 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 87 percent of the $1.9 billion worth of deposits in Bolivia's 16 commercial banks are presently held 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 October 1993 the average rate of dollar deposits had fallen to 11.2 percent and the average rate on dollar loans was down to 18.2 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 $5 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. The 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 ten 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 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 bread roll commonly consumed by the poorer members of society.

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 authorized by Presidential decree. That law essentially guarantees national treatment for foreign investors and authorizes international arbitration except for disputes in the oil industry. 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.

In 1992 the Bolivian Congress approved a privatization law that allows the government to sell state owned companies and assets. In 1993 the Congress passed a new banking law that establishes clear rules for the commercial banks and authorizes them to maintain foreign currency accounts. (That authorization had been in effect since 1985 from a presidential decree but a law passed by Congress is much more permanent.) All government purchases over 100,000 Bolivianos (about $23,000) are, by law, handled by one of three private purchasing agents. The pur-

chasing 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 $3.7 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 debt payments 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 1980's.)

The Bolivian government has reduced the debt it owes to commercial banks from over $700 million in 1985 to $9.6 million by mid-1993. 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 has now contracted 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 and 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." The Export Law of April 1993 also prohibited the import of products which affect the preservation of flora and fauna, particularly nuclear waste. 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 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 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 only signed the GATT codes on customs valuation so far.

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 value of the export. The certificates were to offset the ten percent value-added tax charged on all purchases in Bolivia. The certificate program was replaced with a "drawback" scheme which rebated either two or four percent of the value of most "non-traditional" exports. An export law, approved by Congress in April 1993, replaced the drawback program with one whereby the government grants rebates of all the domestic taxes paid on the production of items later exported. The only indirect subsidy on exports comes from the government-owned railroad which charges a lower shipping rate per ton on exported commodities than on imported goods.

7. Protection of U.S. Intellectual Property

Protection of intellectual property rights (IPR) improved during 1992 following the promulgation of two laws. The film law, passed by Bolivia's Congress in December 1991, will provide protection to films and videos as soon as the implementing regulations are published. The law requires all films and videos shown or distributed in Bolivia to be registered with the newly created National Movie Council. Films not registered and not carrying a seal by the Council may be confiscated. The copyright law (Ley de Derecho de Autor), passed in April 1992, provides IPR protection to literary, artistic and scientific works for the lifetime of the author plus 50 years.

The law protects the rights of Bolivian authors, of foreign authors domiciled in Bolivia, and of foreign authors published for the first time in Bolivia. These protections will extend to authors of computer programs once the implementing regulations have been promulgated. The Bolivian Congress recently ratified three treaties in order to join the World Intellectual Property Organization and the Bern and Paris conventions.

Patent protection remains inadequate but there is widespread agreement in the Bolivian government that the 90-year-old patent law needs to be updated to conform to international standards. The Bolivian government endorses Andean Pact Decision 344 of 1993 which requires its members to offer 20-year patents and other modern levels of patent protection. The executive branch is drafting a bill for congressional consideration that would fix these standards by law.

Despite the historically inadequate legal and administrative protection of intellectual property, there are no specific complaints from any U.S. firm about piracy of films, pharmaceuticals or patents. It is impossible to estimate the losses to U.S. firms caused by the duplication of video cassettes or the pirating of satellite signals for television broadcasting. (Actually, most of the duplicated videos are apparently coming from other countries.) In any case, the market for these products in Bolivia is very small since only a small fraction of the seven million people own televisions.

8. Worker Rights

a. *The Right of Association.*—Bolivian workers have the right to 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. *The Right to Organize and Bargain Collectively.*—Bolivian workers have the right to organize and bargain collectively. The law does not extend this right to government workers, but the distinction is largely ignored in practice, as virtually all government workers are unionized. Negotiations between 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 1993.

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 cocaine-laced cigarettes, 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)
Total Manufacturing	0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
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		(1)
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		189

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

BRAZIL

Key Economic Indicators

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP at current prices (billions of U.S. dollars)	410	417	437
Real GDP Growth (pct.)	0.9	−1.0	4.7
Per Capita GDP (current $)	2,780	2,793	2,872
Labor Force (000's)	63,200	64,400	65,600
Unemployment Rate (pct.)	4.15	4.50	5.33
Money and Prices:			
Money Supply (M2) (annual pct. growth)	616	1,725	2,288
Interest Rate for Financing Working Capital (monthly nominal rate, pct.)	35.0	30.7	41.2
Personal Savings Rate (monthly nominal rate, pct.)	29.1	24.6	38.2
CPI (annual pct. change)	475.1	1,149.1	2,656
WPI (annual pct. change)	471.7	1,154.2	2,849
Exchange Rate (CR per $):			
Official/Commercial	1.0688	12.3875	342.00
Parallel	1.140	14.60	342.00
Balance of Payments and Trade (millions of U.S. dollars unless otherwise noted):			
Total Exports (FOB)	31,620	36,207	37,747
Exports to U.S. (FOB)	6,362	7,120	7,583
Total Imports (FOB)	21,041	20,501	24,100
Imports from U.S. (FOB)	4,978	4,949	5,402
External Debt	123,910	132,260	130,000
Debt Service (paid)	8,621	7,323	11,964
Gold and FOREX Reserves	9,406	23,754	27,200
Total Trade Balance	10,579	15,706	13,647
Trade Balance with U.S	1,384	2,171	2,181

[1] Forecast for 1993 according to the Government of Brazil. Values in local currency are expressed in the currency adopted on August 1, 1993, the Cruzeiro Real (CR).

1. General Policy Framework

Itamar Franco assumed office as acting President in October 1992 following the impeachment of Fernando Collor, and became President in his own right when Collor finally resigned in late December 1992. Although Franco espoused the general direction of Collor's economic policies (reducing trade barriers, privatization of parastatals, price stabilization, fiscal austerity), considerable uncertainty prevailed over the specific policies and the pace of economic actions of the new administration. Economic policy objectives have not been clearly defined or executed and, consequently, progress made by the Collor administration to open and privatize the economy suffered a loss of momentum.

In May 1993, President Franco appointed his fourth Minister of Finance, Fernando Henrique Cardoso. The following month, Cardoso unveiled his "Program of Immediate Action," an economic adjustment/anti-inflation plan which proposed significant cuts in federal government expenditures, new taxes, strict enforcement of debts owed to the federal government by states and municipalities, greater control of federal and state bank lending, and further acceleration of privatization. The Franco government has made little progress in implementing its plan, largely because of opposition in Congress and from state governors. As a result, despite currently high foreign exchange reserves, large structural deficits continue to result in double-digit monthly inflation. Inflation in September reached the 35 percent range, with an annualized rate in excess of 3,500 percent. Prospects that inflation will fall significantly in the coming months seem remote. Moreover, because of the Government of Brazil's unwillingness to undertake substantial fiscal reform, Brazil is unable to meet certain targets for a standby agreement with the IMF.

Monetary policy: The government's freedom to exercise monetary policy is highly limited given the current fiscal situation. In keeping with its intention to pursue tighter monetary policy, the Central Bank substantially increased interest rates in September 1993. Current monetary policy is designed to maintain positive real interest rates of about 20 percent per year on short-term government securities.

Effective August 1, 1993, Brazil introduced a new national currency, the "Cruzeiro Real," replacing the "cruzeiro," at the rate of 1,000 Cruzeiros per Cruzeiro Real.

2. Exchange Rate Policies

Currently Brazil has three exchange rates: A commercial rate, the tourist rate and the semi-official parallel rate. The commercial rate deals with import-export transactions registered at the Central Bank and financial transactions linked to external debt. The floating rate, also known as the tourist or interbank rate, deals with individual transactions such as unilateral transfers, travel, tourism, and transactions involving education, training, etc. The parallel rate also deals with individual transactions, but they are not recorded.

The commercial rate is adjusted daily by the Central Bank according to the Bank's estimate of the inflation rate. The tourist and parallel rates are fluctuating rates although the Central Bank will often intervene in the tourist exchange market. Increases in the spread between the parallel and commercial rates are generally seen as an indicator of market concerns regarding the economic policies of the Government of Brazil, but the parallel rate is heavily influenced by short-term speculative movements.

In September 1993, the Finance Minister announced that the government intended to unify the three exchange rates. (The tourist and parallel rates had been fluctuating at about nine percent above the commercial rate). Since the announcement the spread between these rates has almost closed. The announcement also stimulated expectations that the commercial rate would be moved up to the level of the tourist rate which, in turn, provoked capital flight. The situation was brought back under control as the Central Bank sharply increased real domestic interest rates.

3. Structural Policies

Constitutional reform called for by the transitory provisions of the 1988 Constitution did not begin as scheduled in October 1993, due to the attention focused on an internal investigation of congressional corruption. It is unclear when the process will begin. Theoretically, the constitutional review process intends to rectify the fundamental economic distortions of the present Constitution. Among others, the following issues are on the table: fiscal reform, including redefinition of federal/state/municipality financial relationships; simplification of the tax structure; rationalization of the social security system; elimination of the constitutional discrimination against foreign owned firms; dissolution of state monopolies; reopening the minerals sector to foreign capital; and, rationalization of the electoral system.

The state monopolies granted to petroleum and telecommunications by the 1988 Constitution may be reconsidered during constitutional review. In October 1993, however, the Franco administration announced that it would not propose, during the review process, an end to these state monopolies. It is also not certain that constitutional review will produce enough fiscal reform to make viable the stabilization of the economy.

On July 1, 1993, the government implemented the final reduction of import tariffs (to an average level of 14 percent) as provided for in the program initiated in 1990 to increase competitiveness of Brazilian industry and to open the Brazilian economy to imported products. What was once a highly restricted and regulated trade regime was changed in a relatively very short time to one largely free of quantitative and other restrictions. Brazil's trade regime has become considerably more transparent and less discretionary as a result. According to current policy, after January 1, 1995, Brazilian import tariffs on most products will range from zero to 20 percent, with some products in selected sectors (informatics, electronics, automobiles, fine chemicals) remaining subject to tariff rates of 20 to 35 percent until 2001, when all should drop to 20 percent.

Because of across-the-board tariff reductions, increasing competition from imports and anger over countervailing duties and antidumping levies being imposed by foreign countries in certain sectors, Brazilian industrialists are urging the Brazilian government to tighten up its own legislation against dumping and subsidized imports. They are looking to strengthen the procedures of the Technical Tariff Department (DTT), Brazil's antidumping office, to protect national industries and jobs. Pressure to do so has been most pronounced in such sectors as chemicals, textiles and toys.

The privatization program, initiated under the Collor administration as part of an effort to reduce the size of government, has gone forward slowly under the Franco government. While scheduled steel company privatizations have been completed, little improvement in the program has been made. In October 1993, the economic team implemented measures for the second stage of the privatization program. The basic guidelines include provisions for the privatization of electricity and transportation companies, the acceptance of new financial instruments that will become eligible as monies in the auctions, and the search for other ways to implement privatizations. Details of the program have not been announced and its future is unclear.

The tax system in Brazil is extremely complex, consisting of three levels (federal, state, local), 18 major taxes and 40 other taxes and fees. The complexity of the system and an inefficient collection process invite widespread tax evasion. Simplification of the tax system rates high on the constitutional review agenda. Doubts remain, however, about the ability to press for tax reform measures that most economists see as the next essential step in the fight against inflation.

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 nine billion dollars. In January 1991, Brazil resumed payment of 30 percent of interest accrued to banks. In April 1992, 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 ten-year bonds.

In July 1992, Brazil completed negotiations on a comprehensive accord with its bank advisory committee to reschedule arrears and future payments on its debt. The term sheet outlining the various debt instruments to be used in such a deal was finalized in September 1992. This agreement, however, stipulates that Brazil must have an IMF agreement in place in order to close the debt accord. However, an IMF Standby Agreement would, in all likelihood, require deep fiscal reforms, as additional fiscal measures are required in order for Brazil to meet its inflation assumptions. Fiscal reform of this magnitude does not seem possible at this time. For this reason, it appears unlikely that the debt agreement can be completed before its new deadline of February 1994.

In August 1993, the Government of Brazil announced plans to seek another Paris Club debt rescheduling for debt maturing after August 31, 1993, once it obtains an IMF program. In October, Paris Club members reviewed Brazil's status. No major decisions were made. The Club did not discuss whether the second stage (February 1 to August 31, 1993) of Brazil's last rescheduling should be considered due and in arrears.

5. Significant Barriers to U.S. Exports

Import licenses: Although Brazil requires import licenses for virtually all products, import licensing generally does not pose a barrier to U.S. exports. Prior to implementation of reforms to Brazil's import licensing regime in 1990, restrictions on the availability of import licenses were used as a means to control and limit imports, and served as a major barrier to U.S. exports. Now import licenses are used primarily for statistical purposes and are issued automatically within 48 hours to five days from the time of application. In January 1992, a standard import license fee of approximately 90 dollars was instituted, replacing a 1.8 percent ad valorem fee.

The Ministry of Industry and Commerce's Department of Foreign Trade (DECEX) is in the process of implementing a computerized trade documentation system (SISCOMEX), which, when fully operational, will further streamline filing and processing of import documentation.

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, petroleum, 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.

Other legal and administrative obstacles to foreign services suppliers are being eased. In January 1992, the government announced new rules which allow foreign remittances of trademark license fees and technology transfer payments covered by franchising agreements. The change effectively ends a 20-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 December 1991, Brazil removed the 60 percent surcharge applicable to foreign remittance of profits and dividends, leaving a flat rate surcharge of 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. There continue to be calls for selective price controls on those products having increases out of proportion to increases in production costs.

Informatics: In October 1992, import restrictions that had been in place since the mid-1970's, in one form or another, for computers and related products (informatics products) were removed. As a result, there are currently no quantitative barriers to the import of informatics hardware products. There are, however, barriers remaining to the import of computer software, and draft regulations which would pose new barriers to hardware imports by giving preferences to local firms in government procurement. Furthermore, trade related investment measures exist in the form of tax treatment designed to spur exports and local investment.

In 1984, Brazil codified its policies to promote a local computer industry through restriction on imports, local manufacture, and foreign investment into a comprehensive and highly restrictive informatics law. That 1984 law and its implementation were the subject of a U.S.-initiated Section 301 investigation between 1985 and 1989. In 1991 Brazil revised its informatics legislation to phase out some of the import and investment restrictions, resulting in the final removal of quantitative import restrictions in October 1992.

Import duties for many informatics products, such as personal computers, remain high, up to 35 percent, as compared with Brazil's average import duty of 14.2 percent, and represent exemptions to Brazil's maximum import duty of 20 percent. Provisions of the 1991 informatics law allow for various incentives for local firms, such as tax reductions. For a foreign-owned firm to gain access to most of those incentives, it must commit to invest in local research and development (R&D) and meet export and local training requirements. The 1991 informatics law also provides for preferences for local firms and locally manufactured products in government procurement. Those provisions have not yet been implemented, but are the subject of draft procurement regulations which, if implemented, would give preferences to Brazilian firms and their products in government procurement.

Brazil's software industry is regulated by a 1987 software law which requires that all software must be "catalogued" with the Ministry of Science and Technology's Informatics and Industrial Automation Secretariat (SEPIN) prior to distribution in Brazil. Under the 1987 law, cataloguing for foreign software can be denied if SEPIN finds that there exists a "functionally equivalent" Brazilian product. While once a significant barrier to software imports, the requirement for an equivalency examination proved to be unworkable, and is no longer applied.

The 1987 software law also requires, in most cases, that software be distributed through a Brazilian firm and does not allow for payment of software license fees between related firms, such as between a Brazilian subsidiary and its U.S. parent. A draft software law which would remove the requirement for cataloguing, equivalency examination, and local distribution was submitted to Brazil's Congress in 1990, but still awaits passage.

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 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 encouraged an open and GATT-consistent MERCOSUL, and concluded a trade and investment framework agreement in 1991, whereby the United States and the four member countries agreed to consult closely on trade and investment relations. 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 non-tariff barriers could restrict their access to the larger MERCOSUL market.

Lingering problems concerning the coordination of macroeconomic policies, the creation of a common external tariff and the harmonization of widely different laws in a number of socioeconomic fields threaten to delay complete implementation of the MERCOSUL Agreement by its 1995 deadline. Brazil remains determined to complete the integration process.

Government Procurement: Article 171 of Brazil's 1988 Constitution provides for preferential treatment for Brazilian owned firms—"Brazilian national capital companies"—in government procurement. However, in practice, these preferences have not been uniformly or consistently applied. Until passage of a comprehensive government procurement law in 1993 (Law 8666), much discretion had been left for individual federal, state and municipal entities in procurement practices. As a result, state and municipal governments, as well as related agencies and companies followed informal "buy Brazil" policies.

Law 8666 requires all federal entities to use strict procurement practices based on public competition and an open, transparent bidding system. Under Law 8666, government entities are prohibited from discriminating between foreign and Brazilian origin products, except where competing bids are "equivalent" in terms of price, quality and delivery. In such cases, preference can be given to Brazilian firms and Brazilian products.

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New procurement regulations governing purchases by Brazil's telecommunications monopoly, TELEBRAS, have been proposed which would severely limit the ability of firms not already manufacturing a particular telecommunications product from participating in TELEBRAS procurement. A similar draft decree is under consideration which would require all government entities to give preferences to Brazilian products and firms when procuring a wide range of "informatics" goods, including computers, data communications equipment and related products. Action on these two proposed regulations is expected by year-end 1993.

Brazil is not a signatory 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 eight 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 Intellectual Property Rights (IPR)

On April 30, 1993, the U.S. Trade Representative designated Brazil a "Priority Foreign Country" because of inadequate protection of IPR and initiated a formal investigation on May 28. On November 28, after receiving information from the Brazilian Government regarding improvements in its copyright and trademark legislation, the investigation was extended until Feb. 28, 1994. No further extension is possible under U.S. law. A decision will have to be taken by that date on possible trade sanctions. Difficult issues remain unresolved in both the patent and copyright areas.

In June 1990, the Brazilian government had announced its intention to bring Brazil's patent and trademark law more into line with international standards. In response, the U.S. dropped an ongoing section 301 investigation and eliminated the 100% tariffs that had been imposed on certain Brazilian products as a pursuant to that investigation. After extensive debate and numerous proposals, on June 2, 1993, draft industrial property legislation was passed by the Brazilian Chamber of Deputies and sent to the Senate for approval. The Senate finally began hearings in November 1993. Congressional attention has been focused on an internal corruption scandal and the constitutional review.

Review of the draft bill revealed that significant improvements are needed to align Brazil's draft Patent and trademark law with international standards.

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 the Congress would recognize the first four categories; patentability of certain types of inventions in the biotechnology area, however, is excluded. A number of other flaws remain, such as compulsory licensing, domestic working requirements, authorization for parallel importation and a restrictive pipeline provision.

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. The draft Patent and Trademark Bill includes civil penalties and injunctive relief for trade secret infringement. However, it does not expressly contain a prohibition for the acquisition of trade secrets by third parties who knowingly obtain the information by illicit means. Also, it does not contain a prohibition on inducing employees to breach employee secrecy clauses.

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 non-use.

In August 1992, Brazil announced that it would abide by the Stockholm revision of the Paris Convention in its entirety. Previously, Brazil had adhered only to the so-called non-substantive articles of the convention (Articles 13 to 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 6,000 bogus registrations of well-known international trademarks and commercial names. However, legal actions by a number of trademark pirates slowed down the process; thus formal adoption of the full Stockholm revision was deemed necessary.

Until recently, bogus trademark registrations were relatively common, often resulting in protracted legal actions by the legitimate trademark owners. INPI, however, has made a concerted effort to provide more effective protection of trademarks. Provisions of the draft Patent and Trademark Bill would remove some of the burdensome requirements involved in trademark registration. Further, INPI is currently working on reducing the amount of time it takes to obtain a registered trademark. It also plans to adopt the international classification system. Protection of "well-known" marks, however, is weak.

Copyrights: There are several proposed copyright revision bills currently pending in the Brazilian Congress. While Brazil's current copyright law generally conforms to international standards, it is vitiated by weak enforcement. Fines and border enforcement continue to be problematic issues. In the first instance, as a result of inflation, current fines do not constitute an adequate deterrent to infringement. In the second instance, weak border enforcement has caused, for example, sound recording pirates to move into Brazil from Paraguay.

Brazil is taking steps to rectify these problems. For example, it is improving the statutory framework for protection of these rights. Recent amendments to the General Penal Code include the addition of copyright offenses. This provision clarifies the authority of the courts to order seizure and destruction of infringing goods. Previously, there had been limits on the amount of goods that could be seized and the Constitution barred destruction of goods seized under authority of the copyright law.

With respect to the level of protection afforded computer programs, a new Computer Programs Bill has been pending before the Brazilian Congress since 1991. This draft legislation eliminates the mandatory registration requirement for programs, eliminates the requirement that distribution be done through local Brazilian companies, and repeals application of the law of similars to computer programs. The bill, however, does not protect computer programs as "literary works" nor does it provide an exclusive rental right. While there is no active opposition to this bill, as of October 1993, Congressional leadership has not made it a priority item.

Impact on U.S. Trade: In 1988, the Pharmaceutical Manufacturers Association of America initiated a Section 301 action which resulted in the imposition of 100-percent ad valorem tariffs 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. pharmaceuticals industry estimates its losses at around $200 million per year. 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 their sales of $80 million in 1990.

8. *Worker Rights*

a. *The Right of Association.*—Brazil's Labor Code has long provided for union representation of all Brazilian workers (excepting military, military police and firemen), but imposed a hierarchical, unitary system, funded by a mandatory "union tax" on workers and employers. Under a restriction known as "unicidade" (one-a-city), the code prohibits multiple unions of the same professional category in a given geographical area. It also stipulates that no union's geographic base can be smaller than a municipality. Workers in a union whose numbers increased (as when an industry grew) could petition the state to split a preexisting union into two or more unions. The 1988 Constitution frees workers to organize new unions out of old ones without prior authorization from the government, but retains other provisions of the old code. The retention of "unicidade" and of the union tax continues to draw criticism both from elements of Brazil's labor movement and from the International Confederation of Free Trade Unions (ICFTU).

In practice, however, "unicidade" has proven less restrictive in recent years, as more liberal interpretations of its restrictions permitted new unions to form and compete, in many cases, with unions and federations that had already enjoyed official recognition. The sole bureaucratic requirement for new unions is to register with the Ministry of Labor which, by judicial decision, is bound to receive and record their registration. The primary source of continuing restriction is the system of labor courts, which retains the right to review the registration of new unions, and adjudicate conflicts over their formation. Otherwise, unions are independent of the government, and of political parties. Approximately 20 to 30 percent of the Brazilian work force is organized, with just over half of this number affiliated with an inde-

pendent labor central. (Mandatory labor organization under the 1943 Labor Code encompasses a larger percentage of the work force. However, many workers are believed to have minimal if any contact with these unions.) Attacks on rural labor organizers continue.

The Constitution provides for the right to strike (excepting, again, military, police and firemen, but including other civil servants). Enabling legislation passed in 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 failure to end a strike after a labor court decision) will be punishable by law.

b. *The Right to Organize and Bargain Collectively.*—The right to organize is provided for by the Constitution, and unions are legally mandated to represent workers. With some government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. Nevertheless, under current Brazilian law, the scope of issues available for collective bargaining is narrow. Further, the labor court system exercises normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. Existing law charges these same courts, as well as the Labor Ministry, with mediation responsibility in the preliminary stages of dispute settlement. Wages are set by free negotiation in many cases, and in others by labor court decision. Beginning in 1990, the federal government attempted to control salary increases in order to limit inflation, but the attempts appeared to have little effect on wage settlements in the private sector. There is a movement for extensive revisions in the Labor Code which would broaden the scope of collective bargaining and restrict the role of the labor courts, but such changes currently appear unlikely in the near future.

The Constitution incorporates a provision from the Labor Code which prohibits the dismissal of employees who are candidates for or holders of union leadership positions. Nonetheless, dismissals take place, with those dismissed required to resort to a usually lengthy court process for relief. In general, enforcement of laws protecting union members from discrimination lacks effectiveness.

Labor law applies uniformly throughout Brazil, including the free trade zones. However, the unions in the Manaus free trade zone, like rural unions and many unions in smaller cities, are relatively weaker vis-a-vis industry as compared to unions in the major industrial cities in the southeast.

c. *Prohibition of Forced or Compulsory Labor.*—While the Constitution prohibits forced labor, there have been credible citations of cases of forced labor in Brazil. The federal government asserts that it is taking steps to halt the practice and prosecute perpetrators, but admits that existing enforcement resources are inadequate. The largest number of reports of forced labor emanate from rural areas. A provision in the agricultural reform law passed in 1993 provides for the confiscation of property in cases of forced labor. The law by itself is unlikely to have significant impact without other extensive improvements in police and judicial activity.

d. *Minimum Age for Employment of Children.*—The minimum working age under the Constitution is 14, except for apprentices, and legal restrictions are also set in the Constitution to protect working minors under age 18. There are credible reports indicating problems with enforcement. Further, judges can authorize employment for children under 14 when they believe it appropriate. (The ILO noted in 1992 that the constitutional provision for apprenticeships under age 14 is not in accordance with ILO Convention No. 5 on minimum age in industry.) By law, the permission of the 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, official figures state that nearly three million children ten to 14 years of age (or 4.6 percent of the work force) are working. Of these, 46.4 percent are working eight hours or more per day, while 96.3 percent of this group receive not more than one minimum salary (i.e., up to 60–100 dollars per month).

e. *Acceptable Conditions of Work.*—Many Brazilian workers suffer from unsafe working conditions. Occupational health and safety standards are set by the FUNDACENTRO, which is under the Ministry of Labor. Enforcement of these standards is inconsistent because the Ministry deploys insufficient resources for adequate inspection and enforcement. There are also credible allegations of corruption within the enforcement system. If a worker has a problem in the work place and has trouble getting relief directly from his employer, he or his union can file

a claim with the regional labor court, although in practice this is frequently a cumbersome, protracted process.

Brazilian law requires the establishment in work places of Internal Commissions for Accident Prevention (CIPA). Employee members of these commissions are protected under law from being fired for commission activities. Such firings, however, do occur, and the pursuit of legal recourse can require years before resolution.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		668
Total Manufacturing		12,014
Food & Kindred Products	1,303	
Chemicals and Allied Products	2,021	
Metals, Primary & Fabricated	810	
Machinery, except Electrical	2,011	
Electric & Electronic Equipment	721	
Transportation Equipment	1,922	
Other Manufacturing	3,227	
Wholesale Trade		197
Banking		1,022
Finance and Insurance		1,839
Services		94
Other Industries		281
TOTAL ALL INDUSTRIES		16,114

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

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

CHILE

Key Economic Indicators

[Billions of 1986 Chilean pesos unless otherwise noted] [1]

	1991	1992	1993 [2]
Income, Production, and Employment:			
Real GDP [3]	4,705	5,190	2,737
GDP (bn. pesos, current prices)	11,871	14,940	N/A
Real GDP Growth (pct)	6.1	10.3	7.4
Real GDP by Sector:			
Agriculture	356	370	229
Utilities	121	146	69
Manufacturing	825	917	434
Construction	246	278	154
Fishing	53	583	36
Mining	417	424	206
Trade	708	808	419
Transport/Communications	342	391	205
Other (includes services)	1,636	1,796	985
Real Per Capita Income (000's of '86 pesos)	352	382	N/A
Labor Force (000's)	4,794	4,990	5,008
Unemployment Rate (pct.)	5.3	4.4	4.7

Key Economic Indicators—Continued

[Billions of 1986 Chilean pesos unless otherwise noted][1]

	1991	1992	1993[2]
Money and Prices (annual pct. growth):			
Money Supply (M1)	42.8	21.5	0.6
Base Interest Rate[4]	8.5	8.1	9.1
Wholesale Inflation (12-month)	16.5	8.9	9.9
Consumer Price Index (12-month)	18.7	12.7	13.0
Aver. Exchange Rate (Pesos per US$):			
Mid-point of Band	367	390	421
Interbank Rate (actual)	349	363	396
Balance of Payments and Trade (millions of U.S. dollars unless otherwise noted):			
Total Exports (FOB)	8,929	9,986	4,816
Exports to U.S. (FOB)	1,596	1,649	966
Total Imports (FOB)	7,354	9,237	4,952
Imports from U.S. (CIF)	1,582	1,985	1,195
Aid from U.S.[5]	14	4	4
External Public Debt	11,509	10,345	10,098
Debt Service Payments	2,145	2,225	1,159
Gold and Foreign Exchange Reserves (US$ millions)	6,639	9,009	9,880
Trade Balance	1,576	749	−136
Trade Balance with U.S	14	−336	−229

N/A—Not available.

[1] Figures for 1991 and 1992 are full-year or year-end as appropriate, 1993 figures are first-half or end-June.

[2] 1st half.

[3] Real GDP and sectoral GDP figures for first-half 1993 are embassy estimates.

[4] Inflation-adjusted, average, annualized 90–365 day loan rate.

[5] Fiscal years, including all of FY-1993. All grants.

1. *General Policy Framework*

Chile's economic expansion is now into its tenth year. The most notable developments over the last several years have been the diversification of the export base and the reduction in foreign debt relative to Gross Domestic Product (GDP) and exports. 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 grown rapidly since the mid-1980s. The foreign debt situation has improved to the point where Standard and Poor's gave Chile a "BBB" rating in 1992, making it the first Latin American country to achieve an investment-grade rating since the 1980s debt crisis.

The democratic government that took office in 1990 has emphasized the need to maintain macroeconomic stability and the economy's export orientation. The government has generated fiscal surpluses in each of the last three years, and is projected to do so in 1993 as well. Import tariffs were reduced from an average of 15 percent to 11 percent in 1991, and the foreign investment law (D.L. 600) was amended in 1993 to allow investors to repatriate capital after one year rather than three. The government also has enacted laws designed to involve private capital in public infrastructure projects. Among the several pending bills in Congress are those to strengthen environmental regulation, reform capital markets, and allow banks to enter new fields of business. Few changes are expected in the nation's fundamental economic orientation when a new government takes office in March 1994.

The Central Bank's monetary policy targets real interest rates. It has resisted calls to lower interest rates as growth slowed during 1993. Despite large capital inflows that led to peso appreciation in 1991 and 1992, the authorities have sought to maintain an exchange rate which provides incentives to invest in export industries and which is consistent with a sustainable balance of payments.

Indicators for 1993 suggest that growth rates will decline as a result of lower export prices and decelerating domestic spending. GDP should grow by less than six percent in 1993, and inflation will be near the government's target of 12 percent. The trade deficit will be around $800 million, the first deficit since 1981, and the current account deficit will be five percent of GDP. For 1994, preliminary Central Bank projections envision growth of four to five percent, inflation of nine to 11 per-

cent, a trade deficit of around $960 million, and a current account deficit of five percent of GDP. Keeping inflation on a downward path remains a high priority, but the authorities have cautioned that further gains will be difficult to achieve in the short term given the indexation of the economy.

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. Although the path for the crawling peg 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.

The peso appreciated by a total of 19 percent in real terms in 1991 and 1992. The appreciation was in large part due to the strong capital inflows prompted by high Chilean interest rates and the perception abroad of reduced country risk. In the first half of 1993, the peso depreciated by 4 percent. The Central bank intervenes on different occasions as buyer or seller of foreign exchange in the interbank market to reduce short-term fluctuations. A legal parallel market operates, with rates typically close to the interbank rate.

3. Structural Policies

Pricing Policies: The government rarely sets specific prices. Exceptions are urban public transport, and some public utility prices and port charges. 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 around a third of total government revenue. There is an 11 percent tariff on all but a few imports. The maximum personal income tax marginal rate will fall in 1994 from 50 to 48 percent on annual income over approximately $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory Policies: Regulation of the Chilean economy is limited, 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 that explicitly limit the market for U.S. exports to Chile (although other government programs, like the price band system for some agricultural commodities described below, displace U.S. exports). In the last two years, the government has for the first time begun to allow private firms to invest in and operate public infrastructure projects. 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 2.5 percent of Chilean imports pass through these zones.

4. Debt Management Policies

The Chilean government restructured 1991–94 foreign debt maturities with its creditor banks in September 1990. As part of the agreement, the banks participated in a $320 million Eurobond issue, which the government prepaid in October 1993. As of mid-1993, Chile's external debt stock stood at $19.7 billion, or 45 percent of its gross domestic product. (In 1985, the debt-to-GDP ratio stood at 125 percent.) Chilean debt on the secondary market now sells for more than 90 cents on the dollar, up from 30 cents at the beginning of the debt-equity swap program in 1985. The increased value of Chilean debt has virtually ended the debt swap programs, which enabled Chile to exchange $3.6 billion of external debt for equity in Chilean businesses and to buy back some $7.6 billion of debt.

5. Significant Barriers to U.S. Exports

Chile has few barriers to U.S. exports. Nevertheless, treatment in some areas, especially agricultural commodities, diverges from this norm.

The uniform Chilean tariff rate is currently 11 percent, and Chile has agreed in the GATT not to raise its tariff rates above 35 percent. Chile has free trade agreements with Mexico, Colombia, and Venezuela which provide for duty-free trade in most products by the late 1990s. Tariffs also are lower than 11 percent for certain products from member countries of the Latin American Free Trade Association,

products imported by diplomats and the Chilean military, and ten products of developing countries under the Generalized System of Tariff Preferences. A 50 percent surcharge, in addition to the 11 percent import tariff, is applied to all imports of used goods.

The 18 percent VAT is applied to the CIF value of the imported product plus the 11 percent import duty. 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.)

In the automobile sector, there are additional taxes that escalate with the vehicle's value and engine size. The engine tax applies to vehicles with engines of over 1,500 cc., and in 1993 the luxury tax is 85 percent of the CIF value over $9,560. The incidence of these taxes is weighted toward larger and more expensive vehicles, some of which are of U.S. origin.

Another tax that has the effect of discouraging U.S. exports is the 70 percent tax on whiskey, which is produced in only small volumes domestically and which competes with other domestically produced liquors taxed at lower rates.

Import Licenses: According to legislation governing the Central Bank since 1990, there are no legal restrictions on licensing. Import licenses are granted as a routine procedure. However, imports of used automobiles are prohibited.

Investment Barriers: Chile's foreign investment statute, Decree Law 600, sets a standard of general nondiscriminatory treatment of foreign investors as compared to Chilean investors. Foreign investors using D.L. 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms of their investment. Approval by the Committee is routine. Invested capital must be retained in Chile for one year. Since 1991, investors have been required to deposit 30 percent of the total capital obtained from foreign loans in a non-interest bearing central bank account (known as the "encaje") for one year. There is no tax treaty between Chile and the United States, so profits of U.S. companies operating in Chile are taxed by both the Chilean and U.S. governments.

Firms may invest without using D.L. 600 or registering with the Foreign Investment Committee by bringing capital in through foreign exchange dealers or private banks. Few firms use this means of investment, as it lacks the guarantees provided by the contract with the Foreign Investment Committee.

There are some deviations, both positive and negative, from the nondiscrimination standard. Foreign investors receive better than national treatment on taxation, as they have the option of fixing the tax rate they will pay at 42 percent for ten years or paying the prevailing domestic rate, which is at present lower. Unlike domestic firms, foreign investors may also send abroad all of their export earnings.

There are also examples of less than national treatment. D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in order to prevent borrowing of an amount that would seriously distort local financial markets.

Other examples of less than national treatment are the restrictions on foreign investment in some sectors. With few exceptions, fishing in the country's 200-mile exclusive economic zone is reserved for Chilean flag vessels with majority Chilean ownership. Such vessels also are the only ones allowed to transport by river or sea between two points in Chile ("cabotage") cargo shipments of less than 900 tons or passengers.

There are restrictions on non-Chilean ownership of land in border areas, typically applied to citizens of neighboring nations. A pending law would relax these restrictions. Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean. A current freeze on the issuance of new bank licenses limits foreign entry to the acquisition of existing banks.

The automobile and light truck industry is the subject of trade-related investment measures, although U.S. firms are among those helped as well as those harmed. Manufacturers from the United States (GM) and France (Peugeot/Renault) receive import protection in the form of the taxes noted earlier, which tend to protect domestic production. The manufacturers also receive tax benefits for use of local inputs and for exporting auto components. Despite these measures, imports make up around 85 percent of the market.

Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment.

Principal Non-tariff Barriers: The main problems areas are surcharges, minimum customs values, and import price bands. Chile's most significant nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, wheat flour, vegetable oils, and sugar. Surtaxes are levied on imports of these commodities on top of the across-the-board 11 percent tariff. Low world prices have led Chile to establish minimum customs values for spun cotton, milk, rice, corn, and wheat flour.

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, even though Chile is a signatory to the GATT Code on Technical Barriers to Trade. U.S. exporters have expressed concern about the application of phytosanitary requirements to poultry. 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 most state-owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers. The government has on occasion urged some of its constituent agencies to buy Chilean coal on a preferential basis.

6. Export Subsidies

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 returns of VAT paid on inputs 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.

To encourage forestation of land that would be of marginal use to crop agriculture, the government subsidizes approximately 75 percent of planting costs as well as certain management costs for the first generation of trees, which in practice are almost always nonnative species. The value of the subsidy is adjusted for inflation and treated as taxable income when the trees are harvested. Forestry industry representatives say the subsidy, when allocated over the life of plantations, amounts to about five percent of total costs. Both foreign investors and Chileans are eligible for the subsidy. The law which established the subsidy in 1974 (D.L. 701) is due to expire in March of 1994. It is not clear whether the measure will be extended or replaced.

7. Protection of U.S. Intellectual Property

Chile belongs to the World Intellectual Property Organization, and its intellectual property regime is largely compatible with international norms. Efforts to enforce intellectual property rights in Chilean courts have been successful. Protection of patents remains deficient. Chile does not have an explicit statute for protecting the design of semiconductors nor does it have comprehensive trade secret protection. Contracts may set fees and royalties only as a percentage of sales, and payments for the use of trade secrets and proprietary processes are usually limited to three percent.

Patents: The Industrial Property Law promulgated in September 1991 substantially improved Chile's protection of industrial patents, but falls short of international standards. The law provides a patent term of 15 years from the date of grant. The law also does not consider plant and animal varieties or surgical methods as patentable subject matter. Finally, the law does not provide pipeline protection for pharmaceutical patents filed abroad before the law's promulgation. Because of the lack of pipeline protection and the long lead times involved in the marketing of new pharmaceutical products, the law will not prevent local companies from pirating foreign pharmaceutical patents 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: In 1992, the Chilean Congress approved legislation that extended the term of copyright protection from 30 years to 50 years. U.S. industry officials have

said that the Chilean law grants producers less favorable treatment vis-a-vis authors than is the international norm. Piracy of video and audio tapes has been subject to criminal penalties since 1985. Computer software piracy is believed to be declining because of improved access to authorized dealers and service and because of a campaign by the industry, with the cooperation of the courts and government, to suppress the use of pirated software.

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 U.S. pharmaceutical industry has suffered most from the infringement of its intellectual property (in this case, patent) rights in Chile. U.S. industry sources have estimated 1991 losses in Chile due to copyright infringement at $24 million, $15 million of which was attributed to computer software piracy.

8. Worker Rights

a. *The Right of Association.*—Most workers have a right to form unions without prior authorization or to join existing unions, and 14 percent of the work force belongs to unions. Government employee associations operate like unions in some ways, but they do not enjoy the same legal protection as unions. Legislation has been introduced to allow them the same rights as unions.

Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike. Employers are required to show cause whenever they fire workers, but "needs of the enterprise" is a permissible cause. Observers believe that some employers invoke this cause to fire employees for attempting to form unions.

b. *The Right to Organize and Bargain Collectively.*—The climate for collective bargaining has improved, and the number of contract negotiations has grown steadily, but only 17 percent of eligible workers had collective bargaining agreements as of the end of 1992. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960's. However, the law permits (and the Aylwin administration has encouraged) informal union-management discussions to reach collective agreements outside the regulated bargaining process, and these agreements have the same force as formal contracts.

Temporary workers—defined in the labor code as agricultural, construction and port workers, and entertainers—may now form unions, but their right to collective bargaining continues to be restricted. Some 700,000 workers, including most agricultural workers, are limited to informal negotiations and have no protection from unfair bargaining practices.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in the constitution and the labor code, and there is no evidence that it is currently practiced.

d. *Minimum Age for Employment of Children.*—Child labor is regulated by law. Children as young as 14 may legally be employed only with permission of parents or guardians and in restricted types of labor. Economic factors have forced many children to seek employment in the informal economy which, by definition, is more difficult to regulate. A UNICEF study concluded that 107,000 minors (seven percent of their age group) held jobs, mostly in the countryside, and many of them worked with their parents.

e. *Acceptable Conditions of Work.*—Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The legal workweek is 48 hours. There is a minimum wage set by a tripartite committee comprising government, management, and labor representatives. Lower-paid workers also receive a family subsidy. Poverty rates have declined dramatically in recent years, and real wages have risen, although not as rapidly as the overall GDP has grown.

f. *Rights in Sectors With U.S. Investment.*—Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no export processing zones or other special districts where different laws apply.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		257
Food & Kindred Products	33	
Chemicals and Allied Products	60	
Metals, Primary & Fabricated	−127	
Machinery, except Electrical	1	
Electric & Electronic Equipment	9	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		191
Banking		353
Finance and Insurance		1,030
Services		(1)
Other Industries		408
TOTAL ALL INDUSTRIES		2,446

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

COLOMBIA

Key Economic Indicators

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP[2]	750.7	777.2	812.1
Real GDP Growth Rate (pct.)	2.1	3.5	4.5
GDP (at current prices, billions of pesos) By Sector:			
Agriculture	4,319	5,178	5,306
Mining	2,272	2,505	2,858
Manufacturing	5,282	6,546	6,748
Electricity, Gas, Water	671	846	897
Construction	1,213	1,641	1,747
Commerce	3,792	5,088	5,337
Transport/Communications	2,616	3,346	3,507
Financial Services	2,994	3,926	4,126
Government Services	2,066	2,782	2,923
Real Per Capita GDP (Pesos)	22,858	23,275	23,956
Labor Force (millions)	12.4	12.5	14.2
Unemployment Rate (pct.)	9.4	9.8	9.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	33.8	38.4	32.0
Base Interest Rate	36.4	27.1	25.0
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation	26.8	25.1	22.0
Producer Price Index[3]	124.9	49.3	173.2
Consumer Price Index[4]	211.7	264.9	323.2
Exchange Rate (Pesos per $):[5]			
Official	707	812	921
Parallel	632	737	838

Key Economic Indicators—Continued

	1991	1992	1993[1]
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	7,244	7,052	7,700
Exports to U.S	2,561	2,504	3,000
Total Imports (CIF)	4,967	6,686	8,700
Imports from U.S	1,815	2,540	3,300
Aid from U.S	50	50	50
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	14,660	13,830	14,790
Debt Service Payments	3,263	3,470	3,210
Gold and Forex Reserves	6,420	7,767	8,300
Trade Balance	2,277	365	−1,000
Balance with U.S	746	−36	−300

N/A—Not available.
[1] 1993 Figures are estimates based on October 1993 data.
[2] Billions 1975 Pesos, 1975 Peso Rate: 33 pesos = US$ 1.00.
[3] Base 1990 = 100.
[4] Base 1988 = 100.
[5] End-of-period.

1. General Policy Framework

Since taking office in August 1990, the Gaviria Administration has undertaken a program of sweeping economic modernization and liberalization. A package of legislation enacted since the end of 1990 revised Colombia's trade, financial and tax laws, and the labor code. It also eliminated almost all prior import license requirements, simplified import/export procedures, established a free market foreign-exchange regime, liberalized foreign investment, clarified regulations to allow creation of new financial entities, and reoriented tax collections from external to domestic sources.

Other reforms created a more autonomous Central Bank, restructured the export promotion agency into an export-import bank, and created two new ministries: foreign trade and the environment (the latter is not yet in existence). These measures were complemented with decrees which sharply cut tariffs and strengthened the financial system by reducing forced investments and increasing capital requirements. Colombia's Constitution was rewritten in 1991. Despite fears of leftist influence, the rewritten Constitution preserves the traditional market-oriented economy based on private ownership.

Preliminary data show that Colombia's macroeconomic performance in 1992 was better than expected. Real GDP growth increased by 3.5 percent, a full percentage point more than expected. Inflation fell to 25.1 percent, down from the 26.8 percent registered in 1991. Unemployment decreased by year's end to 9.2 percent, down from the 11.1 percent recorded in June 1992. These favorable results came despite difficulties caused by electricity shortages and ongoing guerrilla and narcotics-related violence during the year. The United States, which provided 38 percent of Colombia's imports in 1992, remains Colombia's principal trading partner.

Among the Gaviria administration's major macroeconomic goals for 1993 are: five percent real GDP, 22 percent inflation, zero public sector fiscal deficit, and increases in imports of 28 percent and exports of ten percent. Data available as of October 1993 indicate that the government will come close to the targets for GDP growth, inflation and export growth. However, the public sector fiscal deficit is expected to be 1.5 percent of GDP while import growth will soar far above the 28 percent target. (Imports grew by 78 percent during the January–June period 1993 versus the same period in 1992.)

Colombia continues to be a leader in the Andean Pact negotiations to liberalize trade and investment regimes. The Andean Pact has formed a free trade zone and is completing negotiations on a common external tariff. In addition, Colombia has signed a free trade agreement with Chile and has negotiated such an accord with Mexico and Venezuela. Colombia now benefits from duty-free entry (for a 10-year period) for the majority of its exports to the United States under the Andean Trade Preference Act.

Foreign investment is important in the petroleum, mining, financial and construction sectors. The Colombian government created a corporation to promote foreign investment (COINVERTIR) in November 1992. It actively encourages foreign invest-

ment, including foreign participation in portfolio investments. U.S. investment accounted for 63 percent ($2.7 billion) of the $4.3 billion total foreign direct investment registered between 1967 and mid-1993.

2. Exchange Rate Policy

Decree Law 9 issued in January 1991 and Central Bank Resolution 21 of September 1993 completely revised Colombia's foreign exchange regime. With the closure of the foreign exchange window at the Central Bank, all such transactions now take place in the private financial system. Colombia essentially now has a free market, foreign-exchange system. Although the Central Bank continues to set an official exchange rate based on a crawling peg daily devaluation of the peso, that figure is used only for reference purposes. 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 sterilize temporarily the inflow of foreign exchange, thus minimizing 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 12 percent band of the official rate by buying and selling exchange certificates.

3. Structural Policies

Privatization: The Gaviria Administration accelerated the privatization process, a key component of its economic liberalization program, in April 1993. This was done to shift investment and economic initiative to the private sector while reducing public expenditures, and to free resources for social investment programs and for the reduction of electrical sector debt. The government hopes to raise $2 billion under this privatization plan. Seventy-seven companies will be put on the block. Among them are: five banks, several oil/gas distribution companies and 34 vacation resorts. The plan also includes private investment for development of infrastructure projects and establishment of a cellular telephone network, all under concessional contracts.

Prices: Colombia essentially has a free market economy, with market-determined prices. The relatively few 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 above 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 negotiations between the national coffee federation and the government.

Tax Policies: Colombia enacted a tax reform package in 1992 which tightened tax collection procedures. The result was a 33.8-percent increase in tax revenues over 1991. A special "war tax" was assessed on petroleum, coal and ferro-nickel exporters, with the revenues intended to enhanced military security operations. Major sources of government revenue include 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 nontraditional exports. Investments in free trade zones are exempted from all income taxes, VAT and import duties.

Regulatory Policies: The Colombian government maintains performance requirements for investors only in the automotive assembly sector. However, these requirements were liberalized in 1991 to give assemblers some flexibility in the amount of production they are required to export.

4. Debt Management Policies

Colombia became a net capital exporter in 1992 of about $141 million. External public sector debt was $14 billion at the end of 1992, and total external debt was $16.8 billion (34 percent of GDP). As a result of the high level of international reserves, a new debt management policy emerged. Domestic debt was substituted for external debt through the issuance of dollar-denominated bonds in local capital markets. Colombia prepaid $438.8 million on its multilateral loans, while total external debt was reduced by about $464 million.

The debt substitution scheme also represents long-term fiscal savings because interest payments on the $750 million in Law 55 bonds are almost 2.5 percent lower than the average cost of external credits. The latest shift in policy is in line with the government's sound debt strategy, which has managed to reduce the debt/GDP ratio from 34 percent in 1987 to 27 percent in 1992.

5. Significant Barriers to U.S. Exports

Import Licensing: While all imports must be registered with Colombia's Foreign Trade Institute, all but three percent of 5,162 products are on the free list of imports, and are not subject to licensing or prior approval requirements. Products which still require licensing are generally "sensitive" security or national defense items. The exceptions are poultry meat and certain dairy products which are subject to prior import licenses for phytosanitary reasons, according to the Government of Colombia. The U.S. believes Colombia's phytosanitary restrictions are based on unsound science and used to protect domestic industry not health. Prior import licenses are also required for used trucks, buses, and automobiles; used tires, used clothing, and used textiles. Used automobiles were banned effective January 1, 1994 under the Andean Pact's new Common Automotive Policy.

Import Duties: Colombia's economic liberalization program substantially consolidated and reduced tariff duties. There are presently five main tariff levels: zero, five, ten, 15, and 20 percent. Exceptions to these tariff levels include 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 tariff duty is now ten percent (compared to 35.5 percent in December 1990). A duty of zero or five percent is levied on raw materials, intermediate and capital goods not produced nationally. If the aforementioned products are produced in Colombia, the duty levied is ten or 15 percent. A 20 percent duty is levied on most other items, principally final consumer goods.

Other import fees: The import surcharge was eliminated in 1992. The VAT, which is levied on imports as well as domestically produced goods, was increased from 12 to 14 percent effective January 1, 1993. Value added taxes on automobiles range from 14 to 35 percent.

Services Barriers:

a. *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 Colombia's Foreign Trade Institute.

b. *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 (the former limit was 49 percent). This liberalization allowed Citibank and Bank of America, for instance, to convert their holdings to wholly-owned subsidiaries. It has also allowed several of the weaker banks to become affiliated with more experienced and financially stronger partners, and it has increased competition and technological improvements.

c. *Maritime Transportation.*—The Colombian government eliminated cargo reserves and other restrictions on maritime trade with Decree 2327 of October 15, 1991. In addition, maritime tariffs, chartering services and route assignments were deregulated.

d. *Insurance.*—Goods transported within Colombia must be insured by companies with commercial presence in the country.

e. *Audiovisual.*—Colombian law limits broadcast of foreign-produced television programs to not more than 40 percent of air time.

f. *Advertising.*—Colombian law requires at least 50 percent local content.

g. *Standards, Testing, Labelling, 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 from specialized agencies in Colombia. For example: some agricultural commodities require phytosanitary certification from the Colombian Agricultural Institute. Imports of foodstuffs, pharmaceutical products, cosmetics and certain other products require a license from the Ministry of Health (these are frequently issued only after protracted delays). Importation of U.S. wine coolers has been restricted because the alcohol content is below 11.5 percent, the minimum level set by the Ministry of Health as necessary to kill bacteria in the product. However, the decree restricting the import of wine coolers is presently under review by the government.

h. *Investment Barriers.*—In 1991 the Andean Pact eliminated the remaining restrictions on foreign investment by adopting Decision 291, which provides equal access by foreign investors to 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 and Resolution 57 of the Central Bank are the principal regulations governing foreign investment. They grant national treatment to foreign investors and

permit 100-percent foreign ownership in virtually all sectors of the Colombian economy. The few exceptions include national security and the disposal of hazardous waste products. There are also numerous 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 for foreign investment is required only for investments which either provide a public service (i.e. energy, water, health, communications) or exceed $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 investors, foreign or domestic, must obtain an operating license from the Superintendent of Companies and register with the nearest Chamber of Commerce.

Government Procurement Practices: On October 28, 1993 President Gaviria signed a new Government Procurement and Contracting Law, replacing Decree Law 222. The new law gives equal treatment to foreign companies on a reciprocal basis and eliminates the 20-percent surcharge previously added to foreign bids under Decree 222. However, the law does not apply to contracts for exploration and exploitation of renewable and non-renewable resources, their commercialization, and those activities performed by state companies involved in these sectors. Foreign companies participating in government procurements are required to establish legal representation in Colombia.

Customs Procedures: Former burdensome administrative procedures and bureaucratic inefficiencies in the customs area have improved greatly. Recently, a new customs law was implemented which significantly modernized and streamlined the duties liquidation process and import clearance by diminishing documentary requirements and easing payment of duties and other charges through local banks. 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 certificate (CERTs), duty exemptions on the import of capital goods and raw materials used for production of export goods, and a subsidy on export credit insurance premiums through the Colombian Bank of Foreign Trade. However, these 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

Colombia improved protection of intellectual property rights through the adoption of Andean Pact Decision 313, which went into effect in February 1992. Colombia remained on the U.S. Special 301 Watch List in 1993 due to continuing concerns over deficiencies in the new IPR regime. These include a short patent term, overly broad compulsory licensing provisions, parallel imports authorization and lack of transitional "pipeline" protection. Andean Pact Decisions 344 and 345, which superseded Decision 313 on January 1, 1994, set new higher standards of protection. Recent legislation has strengthened copyright protection and infringement penalties. Colombia continues to focus its discussion of IPR issues through the Andean Pact negotiations.

Patents: Colombia has not joined the major international conventions on patent protection. However, the government has stated its intention to sign the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, and the UPOV Convention.

Copyrights: Colombia's copyright law is based on Law 23 of 1982. The law was extended to cover computer software by decree 1360 of 1989, and Law 44 of 1993, which increases criminal penalties. Colombian law provides copyright protection for the life of the author plus 80 years. If the holder of the rights to the work is a "legal entity," the term of protection drops to 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. No protection exists for semiconductor "masks." Amendments to the copyright law made in 1993 have significantly increased penalties for infringement. The police administrative agencies now can destroy pirated material, and close and cancel the op-

erating license of any establishment where copyright infringement has occurred. Colombia belongs to the Bern and the Universal Copyright Conventions, the Buenos Aires and Washington Conventions, and the Rome Convention on Copyrights. The Colombian Congress has approved the Geneva Convention for the Protection of Phonograms, but it is awaiting further approval. Colombia is not a member of the Brussels Convention on Satellite Signals, though the government is considering accession through G-3 negotiations.

Trademarks: Colombia's trademark protection requires registration and use of a trademark in country. Trademark registrations are valid for ten years 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 for action against importation of products from other Andean Pact countries that bear their trademark without authorization, though certain labelling requirements concerning country-of-origin apply. Enforcement remains a weak area. Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection.

New Technologies: Computer software has explicit copyright protection under a law enacted in 1989.

The International Intellectual Property Rights Alliance estimates that trade losses due to piracy in motion pictures, sound recordings and musical compositions, books, and computer software total at least $81 million per year in Colombia. On the positive side, the government has initiated a modernization program of the Colombian agencies responsible for enforcing Colombia's IPR regime and enforcement actions have increased.

8. *Worker Rights*

a. *The Right of Association.*—The right of workers to organize and strike is recognized by law. Colombia's Labor Code recognizes unions which have 25 or more signatures from a workplace, and strengthens penalties for hindering workers' freedom of association. The Code also assures the independence of labor organizations in determining internal rules, electing officials, and administering activities, and forbids the dissolution of trade unions by administrative fiat. Before carrying out a legal strike, unions must negotiate directly with management and engage in conciliation procedures if no agreement is reached.

b. *The Right to Organize and Bargain Collectively.*—The right of workers to organize and engage in collective bargaining enjoys constitutional protection. Unions have been successful in organizing larger firms and public services, which include less than eight percent of Colombia's economically active population. High unemployment and weak union organization have limited workers' bargaining power in the private sector. Anti-union discrimination or the obstruction of union association is illegal. The new Labor Code increased the fines for restricting freedom of association. The use of strikebreakers is illegal.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal, and the prohibition is respected in practice. The Constitution specifically forbids slavery or any treatment of human beings that resembles servitude.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits employment of children in most jobs before the age of 14, and the Labor Code prohibits those under age 18 from requesting employment permits. This provision is respected in larger enterprises and major cities. However, the extensive informal economy is effectively outside government control.

e. *Acceptable Conditions of Work.*—Acceptable conditions of work: The government annually sets a national minimum wage which serves as an important benchmark for wage bargaining. The current level is consistent with the government's anti-inflation policies. More than one-quarter of the labor force earns less than the minimum wage.

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. Worker rights conditions in those sectors in practice are superior to those prevailing elsewhere 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		596
Total Manufacturing		699
Food & Kindred Products	184	
Chemicals and Allied Products	236	
Metals, Primary & Fabricated	30	
11Machinery, except Electrical	0	
11Electric & Electronic Equipment	24	
11Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		107
Banking		(1)
Finance and Insurance		10
Services		10
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,077

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

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

COSTA RICA

Key Economic Indicators

[Millions of 1966 colones unless otherwise noted]

	1990	1991	1992
Income, Production, and Employment:			
Real GDP	12,244.5	12,521.1	13,433.6
GDP Growth (percent)	3.6	2.3	7.3
GDP by Sector:			
Agriculture	2,366.0	2,513.1	2,587.4
Industry	2,629.3	2,684.5	2,966.4
Electricity, Phone, Water	380.0	397.1	426.9
Construction	503.2	465.5	466.9
Commerce	2,056.7	2,061.0	2,291.8
Transportation, Communicat	1,060.6	1,091.4	1,231.1
Financial	858.7	869.0	970.7
General Government	1,059.3	1,069.9	1,080.6
Other sectors	1,330.7	1,369.6	1,411.8
Real GDP Per Capita:			
In 1966 Colones	4,092	4,086	4,285
In current U.S. dollars	1,597	1,600	1,974
Labor Force (000's)	1,017	1,066	1,087
Unemployment (pct.)	4.6	5.5	4.1
Money and Prices:			
Money Supply (M1, daily ave.) (millions of current colones)	56,769	65,398	90,390
Interest Rate (lending, pct.)	41.6	40.1	N/A
Interest Rate (deposit, pct.)	34.6	30.0	N/A
Investment/GDP (pct. share)	20.6	19.5	20.5
Consumer Price Index (pct. chg.)	27.3	25.3	17.0
Exchange Rate (Colon per $):			
Official (annual avg.)	104.6	136.8	138.0
Parallel (annual avg.)	106.7	139.5	139.4

Key Economic Indicators—Continued

[Millions of 1966 colones unless otherwise noted]

	1990	1991	1992
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	1,448.2	1,593.0	1,877.8
Exports to U.S. (FOB)	578.5	586.1	789.8
Total Imports (CIF)	2,025.7	1,876.6	2,468.8
Imports from U.S. (CIF)	705.0	822.5	1,148.0
Assistance from U.S	74.2	51.6	N/A
Assistance from Other Countries	25.5	117.1	N/A
Total Foreign Investment	135.0	N/A	N/A
Foreign Public Debt	3,269.2	3,266.9	3,263.8
Annual Debt Service Paid	442.0	347.3	496.6
Gold Reserves	4.2	N/A	N/A
Net International Reserves	470.9	902.9	1,062.3
Current Account Balance	−424.0	−278.9	−394.5

N/A—Not available.

1. General Policy Framework

The Government of Costa Rica continues to pursue a trade and economic policy favoring open markets, international competition and freer trade. These policies are supported through active IMF and World Bank programs. Significant setbacks to this general policy have resulted from European Community restrictions on banana exports, domestic pressure to restrict foreign competition, constitutional protection of state-owned monopoly enterprises, and domestic political pressures resulting from uneven economic growth. Many reforms are still supported only by executive decrees rather than legislation, and some recent reforms have become political issues in the current election campaign. Costa Rica has failed to resolve a number of pending expropriation claims by U.S. citizens, some pending over 20 years.

The reforms have clearly contributed to an improving economy. The economy of Costa Rica showed significant growth during 1992. Gross Domestic Product (GDP) increased 7.3 percent in 1992, compared with a 2.3 percent growth in 1991. Financial intermediation, industry and commerce grew more than ten percent, while agriculture grew three percent. Inflation fell from 25.3 percent in 1991 to 17 percent in 1992, and the rate was only 8.9 percent from September 1992 to September 1993. While increased taxation and public sector revenue did reduce disposable income in 1992, the relative stability of the exchange rate during 1992 and 1993, plus the gradual reduction of tariffs, contributed to a record 40 percent increase in imports from the United States.

Public sector finances continue to improve, the result of more efficient tax collection and increases in utilities rates rather than reductions in public spending. The combined public sector deficit decreased in 1992 to 1.4 percent of GDP (2.2 percent in 1991), meeting the country's IMF program target of 1.5 percent of GDP. The central government reduced its deficit to 1.8 percent of GDP in 1992 (3.1 percent in 1991). Although nonfinancial state institutions produced a surplus equivalent to 2.3 percent of GDP in 1992 (2.7 percent in 1991), this was offset by Central Bank losses equivalent to 1.8 percent of GDP (the same as in 1991), caused primarily by servicing of foreign debt, increases in the rate of interest paid on domestic monetary stabilization bonds, and the need to neutralize local currency monetization from accumulated foreign currency reserves. Combined public sector income increased 31.9 percent in nominal terms. Tax revenues increased 36 percent in 1992, with selective consumption tax receipts increasing 105 percent and sales tax receipts increasing 25 percent. Income tax, which is more difficult to collect, increased 30 percent. The remaining fiscal deficit is financed through public sector bond issuance, and private, bilateral and international financial institution borrowing.

The Central Bank used a range of tools to control the growth of the money supply, including open market operations, restriction of public sector credit, and two increases in the reserve requirements on commercial banks (from 21.7 percent in 1991, to 27.4 percent in 1992, for deposits in local currency). Open market foreign currency purchases generated excess liquidity and a drop in interest rates during 1992. Lending rates, which were 38.9 percent in 1991, dropped to 28.8 percent in 1992, generating a 48 percent increase in the demand for credit primarily for com-

mercial, services and private consumption. Credit to the public sector decreased 4.3 percent, resulting in a net increase of 24.3 percent in overall credit, still below the 28.3 percent nominal increase in GDP.

2. Exchange Rate Policy

In March 1992, the Central Bank withdrew from actively controlling the foreign exchange market. The single exchange rate is set indirectly every morning by the Central Bank through its sale or purchase of foreign currency. Exporters are now allowed to keep ten percent of incoming dollars, but must sell the remaining 90 percent to a commercial bank, which in turn must sell 25 percent to the Central Bank, facilitating the Central Bank's acquisition of reserves. Additionally, all foreign transactions by state institutions are channeled through the Central Bank. Commercial banks are free to negotiate foreign exchange prices. However, the difference between the sell and buy rates cannot exceed one percent, and from that limited spread, 0.39 colon per dollar is a tax, and 0.50 colon is a fee paid to the Central Bank. Commercial banks must liquidate their foreign exchange positions daily.

The new exchange policy resulted in an essentially unchanged exchange rate during 1992, as freely traded dollars from tourism and capital investment continued to flow into Costa Rica. The free and sufficient supply of foreign currency was the most significant factor in the marked increase in imports during 1992 and the first half of 1993. It also permitted the Central Bank to build up reserves while reducing the rate of inflation. The policy has also contributed to an increased demand for imports, particularly from the United States, aided by the relative devaluation of the U.S. Dollar versus other major currencies.

3. Structural Policies

While the consumer protection law in Costa Rica fixes prices, regulates profit margins, and prohibits price speculation, most price controls and all margin controls are currently suspended by executive decree. Pending legislation would remove most price and all profit margin controls, impose anti-trust rules and protect consumers against product misrepresentation and price fixing. This change in the pricing law is a requirement for the World Bank's Third Structural Adjustment Loan (SAL III).

Other laws and regulations affecting U.S. exports to Costa Rica include detailed labeling requirements and recent strength requirements for car bumpers. Phytosanitary and zoosanitary restrictions on the import of fresh produce, as well as import permit requirements for many agricultural products limit or act as a de facto ban on U.S. exports of these products. Pharmaceuticals, veterinary drugs and chemicals, including chemicals that are component parts, must be registered and approved by the Ministry of Health before the chemicals or finished products can be imported. Chemicals and pesticides exported to Costa Rica must be legally available in the exporting country.

Government purchasing and contracting are highly regulated and often frustrating due to protracted appeals of contract awards, and bid and performance bond requirements. Despite this, no special requirements apply to foreign suppliers and U.S. companies regularly win public contracts. Competition is fierce among international suppliers and frequently the winner must propose comprehensive packages that include performance guarantees and financing. All exporters must have a legally responsible representative in Costa Rica in order to sell goods or services in Costa Rica.

4. Debt Management Policies

Despite a trade deficit of $751 million for 1992, Costa Rica had a net foreign reserve increase of $159 million. This improvement resulted from $550 million in private capital imports, services and transfers, plus an estimated net $233 million earned from the booming tourism trade. Costa Rica imported $1,148 million from the United States in 1992, a 40 percent increase from 1991. Costa Rica exported only $790 million to the United States, resulting in a trade surplus for the United States of $358 million. While the pending World Bank SAL III, for $180 million, is a potential source of foreign exchange, it is unlikely to be disbursed in the near future, if at all, due to the unwillingness of the Legislative Assembly to pass quickly the laws that are conditions for its disbursement. Consequently, Costa Rica will need to reduce its trade imbalances with other countries, particularly with the United States and Japan, while continuing to attract more foreign investment and tourism, in order to avoid an eventual foreign exchange shortage.

Costa Rica paid $497 million to service its official foreign debt in 1992, equivalent to 26 percent of exports. The debt is now $3,264 million, equivalent to 50 percent of GDP. Debt service payments increased 42.9 percent during 1992. A more serious immediate problem is the servicing of Costa Rica's large internal debt. Almost a third of the government's budget is spent in servicing its domestic debt, more than

the amount spent in paying public employees, leaving precious little for capital improvements. The Central Bank's anti-inflation policy of keeping interest rates high keeps debt service costs extremely high for the Finance Ministry.

5. Significant Barriers to U.S. Exports

Costa Rica requires import permits for dairy products, pork and poultry meat, rice, beans, potatoes, onions, wheat, and sorghum. Some of these permit requirements can act as de facto bans on U.S. exports.

Solvents and precursor chemicals are carefully regulated to prevent illegal use. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. All food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs must be registered and certified by the Ministry of Health prior to any sale.

All imports and exports are registered for statistical purposes only. Foreign companies and persons may legally own equity in Costa Rican companies, including real estate. However, several activities are reserved to the state, including public utilities, insurance, bank demand deposits, the production and distribution of electricity, hydrocarbon and radioactive minerals extraction and refining, and the operation of ports and airports. However, recognizing the impossibility of public financing of large scale infrastructure projects, the legislature recently passed a law allowing private construction and operation of public projects on a concession basis. Such facilities would revert back to the state after an agreed upon period.

Many services industries are so rigorously controlled that foreign participation is practically impossible. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers and other professionals must be members of local guilds which stipulate residency, examination and apprenticeship requirements that can only be met by long time residents of Costa Rica. Investment in such private sector activities as newspapers and radio and television stations and customs brokerage firms are limited to Costa Rican citizens.

The government encourages the development of non-traditional exports and tourism, and may provide incentives for U.S. investment. It does not restrict foreign equity participation. The share of foreign workers in an enterprise is limited by law, but the Ministry of Labor generally grants permission for foreigners to work. Permits for foreign participation in management have always been granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

The government and other state institutions make procurements through open public bidding, but the law allows private tenders and direct contracting of goods and services in limited quantities or in case of emergency with the consent of the Contraloréa (General Accounting Office). Public bidding is complicated and foreign bidders are frequently disqualified for failure to comply with the detailed procedures. The lengthy and costly appeal process often causes losses due to interim price changes while bidders cannot alter their bids.

Customs procedures are legendary for their cost and complexity. Most large enterprises are forced to have customs specialists on the payroll, in addition to buying the services of customs brokers. Customs brokers must be bonded Costa Rican companies and enjoy a monopoly on the handling of imports. All importers and exporters, including U.S. companies, suffer from defective customs procedures, poor administration, theft, graft and inadequate facilities.

The government's expropriation policy has been a disincentive to U.S. investment in Costa Rica. The government has expropriated large amounts of land for national parks, biological and indigenous reserves, and squatters. Some unpaid U.S. expropriation claims date back over 25 years. The government has made some efforts to resolve expropriation cases. The U.S. Government, through extraordinary means such as freezing aid money or delaying international loans, has been able to encourage progress. Claimants also have recourse to international arbitration through the International Center for the Settlement of Investment Disputes, and to local arbitration.

Similarly, landowners in Costa Rica run the risk of losing their property to squatters, who are often organized and increasingly violent. Costa Rican land tenure laws favor squatters, and police protection of landowners in rural areas is poor to nonexistent.

6. Export Subsidy Policies

The Government of Costa Rica has attempted to diversify its export production and markets. Until mid-1992, all goods other than coffee, bananas, beef, sugar and cacao exported outside of Central America and Panama qualified for export subsidies through the issuance of negotiable tax rebate certificates (CATS). These sub-

sidies proved too costly and violated the requirements for Costa Rica's GATT membership. However, existing export contracts call for the issuance of CATS until 1996. Costa Rica is a member of GATT, but is not a signatory of the GATT Subsidies Code. Under the terms of the Central American Common Market Treaty of 1960, industrial products produced in any of the five countries enter duty-free into the other member countries.

Export companies wishing to locate in duty free production zones can benefit from exemption from import duties on raw materials and products, from exemption from all export, sales and consumer taxes, from exemption from taxes on remittances abroad, and from exemption from taxes on profits for a period of six years from the beginning of operations, and a 50 percent exemption for the following four years.

7. The Protection of U.S. Intellectual Property

Costa Rica is a signatory to most major intellectual property rights (IPR) conventions and agreements, and is a member of the World Intellectual Property Organization. However, significant weaknesses exist in the country's IPR system, particularly in enforcement and in patent protection. Pending legislation would ratify the Paris Convention on Industrial Property and create a trade secrets law, but neither bill has any prospect of passage in 1993 due to their low priority on the legislative agenda. An agreement on the Uruguay Round with its chapter on the protection of intellectual property rights will substantially improve the Costa Rican IPR regime. However, the government is otherwise unwilling to improve its IPR regime without reciprocal trade concessions from developed trading partners such as the United States.

Copyrights: Costa Rica is a signatory to the following copyright conventions:

Mexico City Convention on Literary and Artistic Copyrights (1902);

Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906);

Buenos Aires Convention on Literary and Artistic Copyrights (1910), and as revised at Havana (1928);

Inter-American Convention on the Rights of the Author (1946);

Universal Copyright Convention (Paris 1971);

Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961);

Bern Convention for the Protection of Literary and Artistic Works (Paris Act 1971);

Convention for the Protection of Producers of Phonograms (Geneva 1971); and the

Central American Convention (1982).

One deficiency of Costa Rica's copyright laws is the lack of express protection for computer programs and databases, although the National Registry accepts such registrations under existing law. The major problem for copyright holders is with enforcement. Most fines were set years ago, and with depreciation are now inadequate to deter piracy. Criminal cases must be denounced by the injured party and prison terms, while ranging up to twelve months, are frequently suspended. While the Supreme Court upheld the constitutionality of the copyright law, it suspended the three-year general penalty for any violation of the law for which no penalty is specified. The cable television industry now operates almost entirely under quitclaim agreements with foreign producers. Many pirate videocassettes are available, although several larger distributors have now switched to legitimate tape rentals.

Patents: Costa Rica is a signatory to the following patent conventions:

Paris Convention (1883); and

Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906).

The Costa Rican patent laws are deficient in several key areas. The term is far too short. Patents are granted for non-extendable 12 year terms. In the case of products deemed "in the public interest," patents are granted only for one year. This exception applies to all pharmaceuticals, items with therapeutic applications, chemical and agricultural fertilizers, agricultural chemicals and all beverage and food products. The Costa Rican National Health System has been the major obstacle to patent reform, due to a reported fear of increased costs of pharmaceuticals if patents were extended beyond one year.

No patent protection is available for plant or animal varieties, any biological or microbiological process or products. Costa Rica also has broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally. The limited patent protection available cannot be enforced until local production has begun. Costa Rican law also provides for compulsory dependent patent licensing and for expropriation of patents.

Trademarks: Costa Rica is a signatory to the following trademark conventions:
Paris Convention (1883);
Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906); and
Central American Treaty on Industrial Property (1970).

Trademarks, service marks, trade names and slogans can be registered in Costa Rica. There is no actual use requirement. 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 registration of famous marks by speculators, who demand to be bought out if and when the legitimate rights holders come to Costa Rica. Litigation to remove such speculative registrations is long and expensive.

Trade secrets are protected by existing laws, and Article 24 of the Constitution protects the confidentiality of communications. The penal code stipulates prison sentences for divulging trade, employment or other secrets, and doubles the punishment for public servants. Some existing laws also stipulate criminal and civil penalties for divulging trade secrets. The burden of enforcement is on the affected party.

8. Worker Rights

a. *The Right of Association.*—Workers are theoretically free to join unions without prior authorization, but barriers exist in practice. Unions are free of government control and are generally free to form federations and confederations, and to affiliate internationally. The AFL–CIO and other labor organizations contend that the right to associate in Costa Rica is limited by the "Solidarismo" (solidarity) movement. This movement espouses employer-employee cooperation, and offers workers such benefits as credit unions and savings plans. Solidarista associations are partially financed by matching contributions from members and their companies, and can offer many services which unions cannot offer. Most publicly-owned companies have both unions and solidarity associations to which all workers belong simultaneously.

Solidarity associations have been accused by labor unions of illegally bargaining collectively on behalf of members. In June 1993, the AFL–CIO filed a petition with the U.S. Trade Representative calling for the removal of Costa Rica from the Generalized System of Preferences. Also in 1993, the major labor confederation in Costa Rica filed a complaint with the International Labor Organization (ILO). Both petitions allege denial of the right of association, based in part on Solidarismo activities. In October 1993, the Costa Rican government enacted a package of reforms that address these complaints. The legislation is awaiting publication in the Official Gazette. One of the reforms prohibits Solidarista associations from acting as collective bargaining agents.

Costa Rican law restricts the right of public sector workers to strike. However, the Government of Costa Rica has submitted ILO Convention 151 (governing public sector employees' right to bargain collectively and to strike) to the Legislative Assembly for ratification. There are no restrictions on the rights of private workers to strike, and the Labor Code prohibits all actions that tend to "eliminate, avoid, limit or impede the free excercise of workers' collective rights. In late 1993 the AFL–CIO withdrew its petition. Very few private sector workers are union members and there were no notable private sector strikes in 1993. Public sector labor disputes produced a few demonstrations and brief strikes in 1993.

b. *The Right to Organize and Bargain Collectively.*—In June 1991, the ILO concluded that management use of solidarity associations and their participation in trade union activities violated workers' rights of association. Since then, the Costa Rican government has enacted legislation to comply with the letter of the ILO ruling. Specifically, Costa Rican law now explicitly prohibits solidarity associations from engaging in direct or indirect collective bargaining. Legislation has also been enacted to address the AFL–CIO petition by expressly prohibiting the dismissal of workers for organizing or joining a union, as well as increasing fines and tightening labor law enforcement.

c. *Prohibition of Forced or Compulsory Labor.*—The Costa Rican 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. Enforcement in the formal sector is reasonably effective. However, child labor appears to be an integral part of the large informal economy, although data on this is lacking.

e. *Acceptable Conditions of Work.*—The Constitution sets workday hours, overtime pay, days of rest and rights to vacation time. It also requires compensation for discharge without cause, although in practice this is sometimes circumvented. The

Constitution also provides the right to a minimum wage, set by a National Wage Board composed of government, business and labor representatives. The wages set are legally enforceable minimums. Wages can and often do exceed the set amounts. Maximum work hours are eight during the day and six at night, up to a weekly total of 48 and 36 hours respectively. Non-agricultural workers receive overtime pay of 50 percent of regular wages for work in excess of the daily norm. Agricultural workers are not paid overtime if they work beyond their normal hours voluntarily. There is little evidence that employers coerce such overtime from employees. A 1967 law governs workplace health and safety, and requires a management-labor committee in all businesses with more than ten employees. Most firms have followed the letter of this law, but have not made strong efforts to make these committees into effective instruments for improving the workplace. There are too few labor inspectors to ensure that minimum safety and health conditions are maintained, especially outside of the San Jose metropolitan area.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2
Total Manufacturing		253
Food & Kindred Products	94	
Chemicals and Allied Products	83	
Metals, Primary & Fabricated	18	
Machinery, except Electrical	0	
Electric & Electronic Equipment	13	
Transportation Equipment	0	
Other Manufacturing	45	
Wholesale Trade		−30
Banking		0
Finance and Insurance		0
Services		5
Other Industries		−9
TOTAL ALL INDUSTRIES		221

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

DOMINICAN REPUBLIC

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1985 prices), (millions of D.R. pesos)	15,319	16,514	17,009
Real GDP Growth (pct.)	−0.6	7.8	3.0
GDP (current prices in U.S.$)	7,175	7,828	8,689
By Sector:			
Agriculture	1,098	1,174	1,304
Energy and Water	122	157	174
Manufacturing	1,148	1,252	1,390
Construction	517	548	608
New Housing Investment	474	548	608
Financial Services	466	470	521
Other Services	703	783	869
Government, Health and Education	739	783	869

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Others	1,908	2,113	2,346
Net Exports of Goods and Services	−444.0	−824.0	N/A
Real Per Capita GDP (1985 Prices in D.R. pesos)[2]	2,099	2,202	2,209
Labor Force (000's)[3]	3,115	3,240	3,370
Unemployment Rate (pct.)[4]	30	30	30
Money and Prices (annual percent growth):			
Money Supply (M2)	41	32	28
Base Interest Rate[5]	34	30	29
Retail Inflation	4	7	8
Consumer Price Index[6]	1,895.21	1,982.28	2,140.86
Exchange Rate (U.S.$/D.R. peso):			
Official	12.74	12.75	12.75
Parallel	12.97	12.74	12.60
Balance of Payments and Trade:			
National Exports (FOB)[7]	658.3	561.9	516.9
Trade Zone Exports (value-added)	250.0	287.4	N/A
Exports to U.S.[8]	2,095.0	2,452.5	N/A
National Imports (CIF)[7]	1,728.8	2,178.1	2,200.0
Imports from U.S.[8]	1,742.7	2,098.1	N/A
Aid from U.S.[9]	21.1	22.5	24.6
Aid from Other Countries[10]	30.5	N/A	N/A
External Public Debt	4,481.4	4,582.3	4,685.4
Debt Service Payments (Paid)	643.9	480.9	N/A
Gold and Forex Reserves[11]	500.1	580.8	714.2
Trade Balance (National)[7]	−1,070.5	−1,616.2	−1,683.0
Balance with U.S.[8]	352.3	354.4	N/A

N/A—Not available.

[1] U.S. Embassy projections for 1993 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 1993 figure is as of August, 1993. Short term (90 day credit cost (Prime Rate).
[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] 1993 Figure as of August.

Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.

1. General Policy Framework

During the late 1980's, the Dominican Republic suffered a deep economic crisis. This crisis came 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. The year 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 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. The Dominican government claims GDP grew by 7.7 percent in 1992 and forecasts 5 percent growth for 1993. Other observers forecast 3 percent GDP growth for 1993.

In the area of fiscal policy, the government began to eliminate its large deficits in 1990. Tax collection mechanisms were improved and spending on inefficient parastatal enterprises was greatly reduced. The government has in recent years carried out expensive, large-scale public works projects. The majority of government

revenue in 1992 came from import duties (36 percent of the total), a value-added tax (14 percent of the total), income taxes (16 percent of the total) and a special petroleum products surcharge (12 percent of the total). The remaining 22 percent of government income came from several additional taxes (including asset and consumption taxes) and from foreign loans and grants. (Source: Monthly Bulletin of the Central Bank of the Dominican Republic, October 1993). During 1993, the government continued to depend heavily on taxes derived from international trade.

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 the inflation described above. 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 1992, the money supply (M2) grew 32 percent due largely to Central Bank purchases of foreign exchange (dollars).

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 on all foreign exchange transactions conducted by commercial banks. The Central Bank has kept its official "buy rate" for the dollar fixed at 12.5 pesos since mid 1991, and it intervenes in the foreign exchange market to prevent market rates from moving far from this official rate. During 1992 and 1993, business activity in the Dominican Republic was not impeded by problems in the foreign exchange market.

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 Dominican government enacted a major tariff reform by presidential decree. The decree resulted in a simplified tariff schedule with six categories and 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 was to be phased out over three years. This surcharge was eliminated in September 1993.

While it marked an improvement over the previous tariff regime, the 1990 decree still left the Dominican Republic with trade barriers significantly higher than those of many similar countries in the region. In August 1993, the Dominican President signed into law a bill that was essentially a codification of the 1990 decree (with some modifications designed to increase rates of effective protection for Dominican firms). This new tariff law was bitterly opposed by free trade advocates—it leaves the Dominican Republic with a maximum tariff of 35 percent while many other countries in the region are moving toward much lower maximum tariffs. (There are additional taxes on imports—see below.)

Difficult customs procedures continue to be a major complaint of businessmen operating in the Dominican Republic.

The Dominican government has implemented changes in its tax system aimed at increasing revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies were reduced and capital gains are 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. In spite of this reform, considerable problems remain in the area of labor relations (see below).

The banking and finance system is also in need of reform. The goal is a healthier, more competitive and transparent finance system with closer compliance to clearly understood "rules of the game." A new Financial Monetary Code that was expected to be enacted in late 1992 has not been put into effect. Some bank reforms are being carried out by decree, but bank supervision remains very weak and there is uneasiness about the heath of the banking system.

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. It is widely recognized that there is a pressing need for investment climate reform.

4. Debt Management Policies

The total external debt of the Dominican government is approximately $4.5 billion. Approximately $3.5 billion is official debt and $1 billion is owed to commercial creditors. A significant portion of the official debt was rescheduled under the terms of a Paris Club negotiation concluded in November 1991, but the Dominican government did not put into effect bilateral agreements implementing this rescheduling until November 9, 1993. Progress on the commercial debt has also been very slow. In May 1993, the Dominican government reached tentative agreement with its commercial bank creditors on terms for a debt settlement, but as of October 1993, the government and the banks had not reached an agreement.

The Dominican Republic's debt burden is fairly typical for a lower-middle-income country. Total external debt was equivalent to 63.3 percent of GNP in 1989.

5. Significant Barriers to U.S. Exports

Trade Barriers: Tariffs on most products fall within a 3 to 35 percent range. In addition, the Government of the Dominican Republic imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, 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 and market share has been sharply reduced.

The Dominican Republic continues to require consular invoice and "legalization" of documents with attendant fees, which must be performed by a Dominican consulate in the United States. Moreover, importers are required to obtain licenses from the Dominican Customs Service.

Customs Procedures: 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. Valuations frequently are incorrect. 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.

Government Procurement Practices: 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. There is no clear rule requiring open, competitive bidding in public procurement. Provisions of the U.S. Foreign Corrupt Practices Act often put U.S. bidders on government contracts at a serious disadvantage.

Prohibitions on Land Ownership: For foreigners, ownership of more than approximately one-half acre (2,000 square meters) needs Presidential approval.

Investment Barriers: 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. As per 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 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 local source 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 electricity sector continues to be a weak link in the Dominican economy. Recently, however, the Dominican government agreed upon a reform and expansion strategy which is based on private sector participation in both generation and distribution of electricity. A draft electricity law is at the Presidential office and is expected to reach Congress shortly. To date however no new private electric plants have been completed.

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 continue to cause difficulties; several investors have outstanding disputes concerning expropriated property. Instead of resolution through binding international arbitration, settlement of investment disputes is limited to local courts, or in the case of arbitration, to the Chamber of Commerce and Industry of Santo Domingo.

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.

Various efforts to reform the current foreign investment law have yielded no tangible results. There is a proposed draft law, written in the Central Bank, which would go a long way towards meeting the legal needs of foreign investors, but its future enactment is far from certain.

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 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 more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

The government currently is negotiating with the private sector on a proposed new export incentive law. Chances of passage are uncertain.

7. Protection of U.S. Intellectual Property

The Dominican Republic is a signatory to the Paris Convention, the Universal Copyright Convention, and, since 1991, a member of the World Intellectual Property Organization. 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. Following this, several Dominican cable

operators signed quitclaim agreements with U.S. telecommunications firms governing fees to be charged for local transmissions, although violations by other operators continue to be a problem. Enforcement of new regulations protecting videos has proved less successful, and to date there is no apparent trend towards general compliance.

Patents (product and process): In a local pharmaceutical market of approximately $110 million a year, Dominican manufacturers supply about 70 percent of the total. Of that, about seven per cent is believed to be counterfeit.

Trademarks and Copyrights: 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.

Impact of IPR Policies on U.S. Trade: Non-protection of Intellectual Property Rights is so widespread that it is virtually impossible to quantify its impact on U.S.-Dominican Republic trade. In its complaint, the MPEAA estimates that losses to its members alone, due to theft of satellite-carried programming, are more than $1 million per year. Losses due to other counterfeiting cost U.S. companies millions more.

8. Worker Rights

a. *The 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 10–15 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. *The Right to Organize and Bargain Collectively.*—Collective bargaining is permitted and can take place in firms in which a union has gained 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. The firings of workers by the Dominican Electric Corporation led to management/labor disputes which have yet to be resolved. The free trade zones have also been the scene of some management/labor disputes (See Section 8.F.). None of the workers in any of the country's 26 free trade zones are covered by a collective bargaining agreement.

In 1993 the AFL–CIO filed a petition to remove GSP benefits from the Dominican Republic for failure to provide internationally recognized worker rights. The petition was accepted for review; a final decision is expected in mid-1994 at the end of the 1993/94 review cycle.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law. However, 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 1993. 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 generate 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 period of eight hours per day and 44 hours per week, with an uninterrupted rest period of 36 hours each week. In practice, a typical work week is Monday through Friday plus half day on 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 only 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. Investments.—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 more than a dozen free trade zone firms for allegedly violating worker rights provisions of the new Labor Code. No free trade zone company has concluded a collective bargaining agreement with a union. 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		134
Food & Kindred Products	3	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	−3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	109	
Wholesale Trade		7
Banking		(1)
Finance and Insurance		(1)
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		744

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

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

ECUADOR

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production and Employment:			
GDP at Factor Cost	11,093	12,256	13,665
Real GDP Growth (Percent)	4.9	3.5	2.2
GDP by Sector:			
Agriculture, Fishing	1,608	1,613	N/A
Petroleum, Mining	1,254	1,519	N/A
Manufacturing	2,309	2,743	N/A
Construction	447	497	N/A
Services	4,885	5,255	N/A
Other	590	637	N/A
Net Exports of Goods and Services	−577	−126	N/A
Per Capita GDP (US$)	1,134	1,236	1,359
Labor Force (000's)	3,407	3,455	3,503
Unemployment Est. (Percent)	12	14	14
Money and Prices (Percentage):			
Money Supply (M1 Growth)	46.5	43.3	N/A
Base Interest Rate[2]	42.5	47.4	35.6

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Personal Saving Rate	18.1	18.0	N/A
Consumer Price Inflation	49.0	60.2	30.0
Exchange Rate (sucres/US$)[3]	1,100	1,587	1,910
Balance of Payments:			
Total Exports[4]	2,851	3,008	3,003
Exports to U.S	1,328	1,344	1,554
Total Imports[4]	2,207	2,027	2,128
Imports from U.S	648	999	1,142
Trade Balance[4]	644	981	875
Trade Balance with U.S	380	345	412
Foreign Transfers	110	120 N/A	
Aid from U.S. (Fiscal Year)	25.0	28.6	17.4
External Public Debt[5]	12,271	12,122	12,379
Debt Service Payments[5]	1,290	1,376	509
Foreign Exchange Reserves[6]	760	782	1,130

N/A—Not available.

[1] 1993 estimates are based on data available in October 1993.
[2] Average annual interest rate for 30 to 90-day bank deposits.
[3] Average annual free market exchange rate.
[4] Merchandise trade: 1993 projection based on mid-year data.
[5] 1993 Data for January–June only. Debt service is scheduled payments, including arrears, but not refinanced payments.
[6] Reserves as of August 31, 1993.

1. General Policy Framework

The Ecuadorian economy is based on oil, along with exports of agricultural commodities (chiefly bananas) and seafood (particularly shrimp). Industry is largely oriented to servicing the domestic market. During the oil boom of the 1970's, the Ecuadorian government borrowed heavily abroad, increased subsidies to consumers and producers, and expanded the state's role in production. In recent years, such counterproductive government policies have become less sustainable economically, leading to chronic macroeconomic instability. Nevertheless, a functioning democracy and partial reform measures have kept Ecuador from falling into the kind of serious political and economic crises experienced by many other Latin American countries in the 1980's.

President Sixto Duran Ballen took office in August 1992 promising economic stabilization, modernization, and free market reform. The following month the new government introduced an ambitious economic stabilization program designed to deal with the situation inherited from the outgoing Rodrigo Borja administration. In spite of booming markets for Ecuador's export-driven economy, the country was suffering from large public sector budget deficits largely financed through accumulation of arrears to suppliers and foreign banks and monetary emission by the Central Bank, restricted access to foreign loan and investment capital, chronic annual inflation in excess of 50 percent, an overvalued currency, and a fall in international reserves to only 40 days worth of import cover. The economic adjustment package closed the deficit through fuel and electricity price hikes, devalued the sucre by 35 percent, and modified the exchange rate system to limit monetization of international reserves.

As a result of the stabilization program and weaker demand for Ecuadorian exports, economic growth will slow to around 2.2 percent in 1993, down from 3.5 percent in 1992 and 4.9 percent in 1991. Gross domestic product for 1993 is estimated to reach $13.4 billion. In 1992, Ecuador ran a $981 million merchandise trade surplus and a current account deficit of $6 million due to a services deficit of $1.1 billion. Although Ecuador will continue to enjoy a trade surplus in 1993, the export boom of the last few years is over, with the price of oil falling from $17 a barrel to $14.50 and the banana industry retrenching due to global oversupply and the imposition of import quotas by the European Community. The Central Bank is projecting 3 percent growth in real GDP in 1994, based on the assumptions of an oil price of $15 a barrel, a fall in the inflation rate to 15.4 percent, and a significant inflow of multilateral development resources.

Inflation is slowing to the point where the government may meet its target of 30 percent for 1993. The money supply (M1) increased by 43 percent in 1992, similar

to the 47 percent increase experienced in 1991, but has only risen 10 percent during the first 8 months of 1993 as the Central Bank has started to use open market operations to control monetary growth. Since the last quarter of 1992, a high interest rate differential with the U.S. and sucre nominal exchange rate stability have attracted some $400 million in reverse flight capital, helping to increase foreign reserves to $1.13 billion (7 months of import cover) and contributing to a real appreciation of the sucre. The overvalued currency and earlier trade liberalization measures have made imports more competitive, but Ecuadorian exporters are currently caught between rising sucre costs and stagnant sucre earnings. Meanwhile, lower inflation expectations and growing bank liquidity contributed to a substantial drop in interest rates in the latter part of 1993, although the spread between savings and lending rates has remained high.

While the government has had some success on the macroeconomic stabilization front, the fundamental structural reforms required to improve the investment climate and prospects for long term growth have proven more difficult to achieve. While the Duran Ballen administration has made progress with budget reform and promoting the development of capital markets, little has been accomplished in the effort to privatize state enterprises and modernize the way the government does business through reductions in staff, elimination of unnecessary regulations, and attacking corruption.

2. Exchange Rate Policy

The government devalued the currency by 35 percent to 2,000 sucres/dollar in September 1992 and embarked upon a controlled float of the sucre. The devaluation more than compensated for prior real appreciation, allowing the government to use exchange rate stability as a partial anchor against inflation. Since December 1992, exporters have not been required to surrender their foreign exchange earnings to the Central Bank at the intervention rate. Foreign currency is readily available on the free market, trading at about 1,950 sucres/dollar in October, and there are no restrictions on the movement of foreign currencies into or out of Ecuador. Inflows of capital to take advantage of Ecuador's high interest rates have forced the Central Bank to intervene by selling sucres to keep the currency from appreciating, leading to an increase in foreign reserves, but creating upward pressure on the money supply.

A separate exchange rate structure remains in effect for the public sector, with the sell rate fixed at 1,700 sucres/dollar and the buy rate set by the free market. (The Central Bank abandoned the 2,000 sucres/dollar intervention rate for buying dollars in September 1993.) The exchange rate spread is used to finance the Central Bank's operations.

3. Structural Policies

The Duran Ballen administration promised to pursue a structural reform program designed to promote investment and economic growth, but has had only partial success. The budget reform law passed in 1992 unified the central government budget with those of the various autonomous institutes, parastatal enterprises, and financial bodies that account for half of public sector spending. The reform also curtailed the practice of earmarking certain revenues for unrelated expenditures and gave the Ministry of Finance greater control over spending by public agencies, a power that has been actively used to keep the budget in balance. The elimination of the Central Bank's role in subsidizing credit by the previous administration has also helped curb the deficit. The public sector workforce has reportedly been reduced by 20,000 people, but most of those laid-off appear to have been contract rather than permanent employees. Unlike earlier versions of the bill, the recently enacted state modernization law does not enable the administration to unilaterally reduce the public workforce.

A mechanism for privatizing state enterprises was established in May 1993 with the passage of the capital markets law. The law provided the legal basis for expanding the Quito and Guayaquil stock exchanges into true equity markets where stock in companies, including privatized state enterprises, can be traded. However, except for some shares in a cement company, the government has not yet utilized the markets to divest state holdings in commercial enterprises. The modernization bill, the centerpiece of the administration's reform program sent to the Ecuadorian Congress in early 1993, was to have given the government broad authority to privatize substantial parts of the "strategic sectors" of the economy, including petroleum, electricity, and telecommunications. The version finally passed by Ecuador's Congress in October 1993 only allows private sector participation in the strategic sectors on a concession basis and generally relegates privatization to a last resort. Further legislation will probably be required before substantive reform can proceed.

New regulations issued in January 1993 built on the 1991 investment liberalization measures by providing foreign investors with full national treatment and eliminating prior authorization requirements for investment in most industries, including finance and the media. Specific restrictions—most applicable to Ecuadorian as well as foreign investors—remain for petroleum, mining, electricity, telecommunications, and fishing investments. The new legal regime opened the way for the signing of a Bilateral Investment Treaty with the U.S. in August 1993 that provides for free transfers and a dispute settlement procedure that includes binding arbitration. The capital markets law also equalized income tax rates on foreign and domestic companies.

The Borja administration initiated a major trade liberalization program, reducing tariffs and tariff dispersion, eliminating most non-tariff surcharges, and enacting an in-bond processing industry (maquila) law in 1990. The Duran Ballen administration continued regional free trade talks, concluding bilateral agreements with its Andean Pact partners Colombia, Bolivia, and Venezuela. In September 1992 Ecuador applied to join GATT. A bill designed to reduce corruption and improve efficiency in the customs service, thereby eliminating a major constraint on trade, has yet to pass the Ecuadorian Congress.

4. Debt Management Policies

Ecuador has yet to restructure its external debt with its commercial bank creditors. Total external debt, including past-due interest, at the end of the first half of 1993 measured $12.4 billion. Over half of the debt, about $4.5 billion in principal and almost all of the $2.2 billion in interest arrears, is owed to foreign commercial banks and secondary market investors in bank paper. Ecuador stopped paying debt service to the commercial banks in 1987, resumed paying 30 percent of interest due in June 1989, then terminated partial interest payments in September 1992 pending the completion of a debt restructuring settlement. After making some progress in talks with the commercial banks, the Duran Ballen administration broke off negotiations in June 1993, but resumed negotiations in October. Reaching a settlement with the banks is a high priority for the government, but any deal will involve high upfront costs for Ecuador and require an agreement on the size of ongoing debt service payments.

After failing to reach an agreement with the IMF in the first half of 1993, Ecuador is again negotiating for a stand-by arrangement to replace the one signed in December 1991. Ecuador promptly fell out of compliance with the previous agreement, failing to meet important targets for the first quarter of 1992. An IMF agreement is necessary if Ecuador is to achieve a commercial debt settlement, attract additional multilateral financing for its reform program, and upgrade its foreign investment climate. In February 1992 Ecuador reached an agreement with the Paris Club to reschedule official bilateral debt that fell due in 1991 and 1992. Ecuador hopes to conclude another Paris Club rescheduling in the near future, upon completing a new agreement with the IMF.

5. Significant Barriers to U.S. Exports

Ecuador's tariff schedule is based on the GATT's Harmonized System of Nomenclature. In 1991, the Borja administration overhauled a highly protectionist tariff system, reducing duties and fees for most imports to the 5 to 20 percent range. Ecuador is in the process of establishing a common external tariff system with other members of the Andean Pact. In September 1993, Ecuador reached an agreement with Colombia and Venezuela to introduce a common tariff of 35 percent for cars and light trucks. The Andean Pact will not allow the import of used cars.

All importers must obtain a prior import license from the Central Bank. Licenses are usually made available for all goods, although importers sometime encounter bureaucratic delays. A 1976 law prevents U.S. and other foreign suppliers from terminating existing exclusive distribution arrangements without paying compensation. Foreigners may invest in most sectors, other than public services, without prior government approval. There are no controls or limits on transfers of profits or capital and foreign exchange is readily available.

Government procurement practices 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.

Customs procedures can be difficult, but are not normally used to discriminate against U.S. products. Sanitary requirements for imported foods, as well as some other consumption goods have had the immediate effect of blocking the entry of some imports from the U.S. Since similar requirements exist for domestically-produced consumption products, it remains to be seen whether importers can quickly

arrange for sanitary registration or whether the requirement will have the effect of a non-tariff trade barrier.

6. Export Subsidies Policies

Ecuador does not currently have any export subsidy programs.

7. Protection of U.S. Intellectual Property

In a major breakthrough, Ecuador and the U.S. signed a bilateral Intellectual Property Rights Agreement (IPRA) in October 1993 that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs, and trade secrets. As a result of this agreement, Ecuador has been removed from the Special 301 Watch List. Pending ratification of the IPRA by the Ecuadorian Congress, protection of patent and trademark rights is based on Andean Pact Decision 313, implemented in March 1992. Andean Pact decisions 344 and 345 will supersede Decision 313 on January 1, 1994.

Copyright infringement is common, and there is some local trade in pirated audio and video recordings, as well as computer software. A proposed reform of the copyright law to improve protection and enforcement against piracy has yet to receive congressional approval. Local registration of unauthorized copies of well-known trademarks is 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. *The Right of Association.*—Under the Ecuadorian Constitution and Labor Code, most workers in the private and parastatal sectors enjoy the right to form trade unions. The revised labor code of November 1991 raised the number of workers required for an establishment to be unionized to 30, a restriction that has been criticized by the International Labor Organization (ILO). Most public sector employees are technically prevented from joining unions, but most maintain membership in some labor organization. Approximately 8 to 9 percent of workers, mostly skilled workers in parastatal or medium to large sized industries, are organized. Except for public servants and workers in some parastatals, workers by law have the right to strike. Sitdown strikes are allowed, but restrictions on solidarity strikes were imposed in 1991. Illegal strikes by public employees are common. Despite official threats, action is virtually never taken against striking public workers.

b. *The Right to Organize and Bargain Collectively.*—Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The 1991 Labor Code revision streamlined the bargaining process in state-owned industries by requiring workers to be represented by a single union. The Labor Code prohibits discrimination against unions and requires that employers provide space for union activities. Employers are not permitted to dismiss a worker without the express permission of the Ministry of Labor. The Labor Code provides for resolution of conflicts through a tripartite arbitration and conciliation board process. The in-bond (maquila) law passed in 1990 permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector. Despite recent reforms, employers consider the Labor Code to be highly unfavorable to their interests and a disincentive to hiring union members and to employment in general.

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 the permission of their parent or guardian to work. In practice, enforcement of child labor laws is seriously inadequate. In rural areas many children stop attending school regularly at about 10 years of age so that they can contribute to household income as farm laborers. In the city many children under age 14 work in family-owned businesses in the informal sector, shining shoes, collecting and recycling garbage, or as street peddlers.

e. *Acceptable Conditions of Work.*—The Labor Code provides for a 40 hour work week, a 15 day annual vacation, a minimum wage, and other variable employer-provided benefits such as uniforms and training opportunities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by the Ecuadorian Congress. Mandated bonuses bring total monthly compensation to about $88, although the vast majority of organized workers in state industries and large private enterprises earn substantially more. The Duran Ballen administration has proposed a simplification of the complex minimum wage and bonus system. The Labor

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Code also provides for general protection of workers' health and safety on the job. In the formal sector occupational health and safety is not a major problem. There are no enforced safety rules in the agriculture sector and informal mining.

f. *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. In 1993 there were no strikes or serious labor problems in any U.S. subsidiary. U.S. companies are subject to the same rules and regulations on labor and employment practices governing basic worker rights as Ecuadorian companies.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		154
Total Manufacturing		88
Food & Kindred Products	26	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	16	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(2)	
Transportation Equipment	(2)	
Other Manufacturing	28	
Wholesale Trade		38
Banking		5
Finance and Insurance		(2)
Services		0
Other Industries		(2)
TOTAL ALL INDUSTRIES		310

[1] Less than $500,000.
[2] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EL SALVADOR

Key Economic Indicators

[Millions of current colones unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1962 prices)[2]	3,401	3,563	3,741
Real GDP Growth (pct.)	3.5	4.8	5.0
GDP (at current prices)	47,792	54,766	65,782
By Sector (current prices):			
Agriculture	4,881	5,080	5,701
Energy and water	1,082	1,284	1,764
Manufacturing	8,956	10,348	12,541
Construction	1,310	1,557	1,921
Rents	2,721	3,077	3,551
Financial services	1,171	1,445	1,906
Other services	4,986	5,710	6,862
Public Administration	3,578	3,860	4,277
Net exports of goods and services	−5,908	−8,609	−10,558
Nominal Per Capita GDP (US$)	1,132	1,201	1,340
Urban Labor Force[3]	841,574	893,171	N/A
Unemployment Rate (pct.)[3]	7.5	7.9	N/A

Key Economic Indicators—Continued

[Millions of current colones unless otherwise noted]

	1991	1992	1993[1]
Money and Prices:			
Money Supply (M2)	11,692.3	15,373.8	18,894.4
Loan Rate (pct.)	18–22	16–18	19
Deposit Rate (pct.)	14–18	12–14	15–16
GDP Deflator (pct. chg.)	12.4	9.4	14.4
Consumer Price Index (pct. chg.)	9.8	19.9	12
Exchange Rate (colones per $)	8.02	8.37	8.73
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	588	597	666
Exports to U.S	196	257	260
Total Imports (CIF)	1,406	1,699	1,950
Imports from U.S	557	650	700
Aid from U.S.[4]	220	270	208
Other Bilateral Assistance	25	20	40
External Debt	2,106	2,338	2,032
Debt Service Payments (paid)	247	346	309
Gold and FOREX Reserves	489	554	660
Trade Balance	−818	−1,102	−1,283
Balance with U.S	−361	−393	−440

N/A—Not available.
[1] 1993 figures are July Central Bank estimates.
[2] GDP at market cost.
[3] Ministry of Planning, Household Survey.
[4] Excludes military aid.

1. General Policy Framework

El Salvador has turned decisively toward market-oriented economic policies in the four years since President Alfredo Cristiani took office. Almost all prices have been freed of government controls. The government has sharply reduced the high tariff barriers of the old Central American Common Market. El Salvador's currency, the colon, is allowed to float, and foreign currencies are freely traded. The banks have been largely privatized, and interest rates are now market driven. These policies have produced four years of steady economic growth. U.S. exports to El Salvador also have grown steadily.

The Cristiani government has rejected the import-substitution model and has pursued trade liberalization and export-led growth. The government modified the previous high tariff rate structure (with duties on some items of 240 percent) and created a new system in which most duties fall in a range of five to twenty percent. Non-tariff barriers and import licensing were almost totally abolished. The Central American Common Market has been reactivated with most commerce among its members duty-free. Government agricultural monopolies were dismantled, as were internal price controls on 240 consumer goods.

The government's drive to liberalize trade has been matched by reforms in the financial markets. Parallel exchange rates were abolished, and the foreign exchange market was opened to both banks and dealers. The colon, valued at about 8.7 to the dollar as of mid-1993, has traded in a narrow range for the past year. The banking system has been reprivatized. Interest rate controls gradually were removed, allowing rates to return to positive real levels. A disciplined monetary policy generally has kept inflation under control, although the rate increased to 19.9 percent last year because of expectations and speculation prior to introduction of the new value-added tax, rate increases for electricity and other regulated services and a temporary lapse in monetary discipline.

Fiscal policy has been the biggest challenge for the Cristiani government. The peace accords signed with guerrilla forces in December 1991 committed the government to heavy expenditures for transition programs and social services. International aid has not been as generous as the government had hoped. The central government deficit grew to 5.4 percent before grants last year and 4.1 percent after grants. Enhanced revenues, including collections from the new value-added tax and

rising collections from import duties and the income tax, and some expenditure reduction are expected to sharply reduce the need for domestic financing of the deficit.

2. Exchange Rate Policy

A multiple exchange rate regime that was used to conserve foreign exchange was phased out during 1990 and replaced by a free-floating rate. The colon depreciated from five to the dollar in 1989 to eight in 1991 but has remained relatively stable since, trading within a narrow range throughout 1993. Large inflows of dollars in the form of family remittances from Salvadorans working in the U.S. offset the large trade deficit. On occasion, the Central Bank has intervened in the exchange market to moderate speculative pressures and soften rate fluctuations.

3. Structural Policies

U.S. exports to El Salvador have increased about 40 percent since 1989. The key policy change driving this trend was the government's decision to lower tariff barriers radically. El Salvador's more open trade policies are not likely to be reversed. Although the country has run up huge trade deficits in recent years, these deficits have been more than offset by large inflows of remittances, short-term capital inflows, official transfers and loans. In fact, El Salvador's net international reserves have increased impressively over the last few years. Also contributing to import growth is the robust rate of economic growth, which can be directly attributed to the government's open market economic policies as well as improved prospects for a lasting peace.

Prices, with the exception of bus fares, petroleum prices and utility rates, are set by the market. The new ten percent value-added tax is applied equally to all goods and services, imported and domestic, with a few limited exceptions. It has not proven to be an impediment to import sales.

Regulatory policy primarily affects U.S. agricultural exports. A price band mechanism introduced in 1990 imposes tariffs on imports of basic grains on a scale that increases as world prices fall and decreases as world prices rise. However, the effective protection rate likely is lower than before liberalization due to the non-tariff barriers that had been in place. El Salvador has agreed to phase out the price bands over the next three years, although the government is seeking to replace them with a GATT-consistent tariff mechanism. In addition, imports of U.S. poultry have been effectively blocked since the Salvadoran government began requiring zoosanitary certificates that technically cannot be provided.

4. Debt Management Policies

El Salvador's external debt is expected to decrease in 1993 to $2.032 billion, from $2.337 billion in 1992, chiefly as the result of an agreement under which the United States forgave about $461 million of official debt. As a result, total debt service will decrease to $309.8 million in 1993, from $346 million in 1992, thereby lowering the debt service ratio (as a percentage of exports of goods and services) from 35 percent in 1992 to 29.7 percent. El Salvador has eliminated all payment arrears, and its debt burden is considered moderate.

The government of El Salvador has been successful in obtaining significant new credits from the international financial institutions. Among the newest loans are a second structural adjustment loan from the World Bank, for $52.5 million, another World Bank loan of $40 million for agricultural reform, a $20 million loan from the Central American Bank for Economic Integration to be used to repair roads and a $60 million Inter-American Development Bank loan for poverty alleviation projects.

5. Significant Barriers to U.S. Exports

Other than tariffs, there are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural commodities to El Salvador. Virtually all import licenses and prohibitive tariffs were removed by the Cristiani administration. U.S. goods face tariffs from five to twenty percent with higher duties only for automobiles, alcoholic beverages, textiles and some luxury items. After January 1, 1995, the tariff on textiles will decrease from 35 to 25 percent. Barriers to U.S. exports do exist, however, in the agricultural sector.

A price band mechanism introduced in 1990 imposes tariffs on imports of basic grains on a scale that rises as world prices fall and falls as world prices rise. U.S. exports of corn to El Salvador declined by 72 percent in 1992 and rice exports, by 64 percent, but these numbers were also affected by a very good local harvest. El Salvador has agreed to phase out the price band over the next three years, although the government wants to replace the respective tariffs with equivalent GATT consistent tariffs. In addition, imports of U.S. poultry products have been effectively blocked since the Ministry of Agriculture began requiring zoosanitary certificates

that technically cannot be provided. The government has indicated that they would like to replace this barrier with a GATT-consistent tariff.

Other standards have not been a barrier to the importation of U.S. consumer-ready food products. The Ministry of Health requires a Certificate of Free Sale showing that the product has been approved by U.S. health authorities for public sale. Importers also may be required to deliver samples for laboratory testing, but this requirement has not been enforced. All fresh foods, agricultural commodities and live animals must be accompanied by a sanitary certificate. Basic grains and dairy products also must have import licenses. Authorities also have not enforced the Spanish labeling requirement.

Restrictions on foreign banks entering El Salvador have recently been removed. Foreign banks now face exactly the same requirements as Salvadoran banks and can offer a full range of services.

El Salvador welcomes foreign investment and its rules regarding the remittance of foreign exchange earnings are among the most liberal in Latin America. The Foreign Investment Law allows unlimited remittance of net profits for most types of companies, and up to 50 percent for commercial or service companies.

Both electricity generation and distribution and telecommunications remain in the hands of government monopolies. The government is privatizing some services in these industries, improving the prospects of U.S. exports in these sectors. It is possible that the government will choose to accelerate this trend. In addition, U.S. exports have faced informal barriers in other government agencies.

6. Export Subsidies Policies

El Salvador offers a six-percent rebate to exporters of non-traditional goods based on the FOB value of the export, but exporters have found it very difficult to collect. In addition, exporters benefit from an exemption from the tax on net worth. Free zone operations are not eligible for the rebate but enjoy a ten-year exemption from income and wealth tax as well as duty-free import privileges.

El Salvador committed to signing the GATT Subsidies Code or an equivalent when it joined the GATT. In March, it signed a Central American convention on unfair trade practices.

7. Protection of U.S. Intellectual Property

El Salvador's Legislative Assembly approved a new law protecting intellectual property rights in July. El Salvador remains on the Special 301 " priority watch list" pending U.S. Government evaluation of the law. (El Salvador was also placed on the Generalized System of Preferences review for intellectual property rights.) While encouraged by the enactment of this law, the U.S. Government still finds that it has substantial flaws. A dialogue on these issues was ongoing in late October. The law was published in August and took effect in October for computer programs and books. However, it included a four-month grace period for enforcement against piracy of audio cassettes, videos and television signals.

Trademarks, however, are still regulated by the Central American Convention for the Protection of Industrial Property. In contradiction to the law, it is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. The government is working on consensual amendments to the convention to eliminate this problem.

El Salvador is a signatory to the Geneva Phonogram Convention and the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations. The government has recently signed the Bern Convention on the Protection of Artistic and Literary Works and the Paris Convention for the Protection of Industrial Property, although both will require legislative ratification.

In the past, U.S. intellectual property groups have estimated annual losses to U.S. business due to piracy in El Salvador at $7 million a year. In 1993, the International Intellectual Property Association filed a petition to remove GSP benefits from El Salvador for failure to provide an effective level of worker rights protection. The petition was accepted for review, a final decision is expected by mid-1994.

8. Workers Rights

a. *The Right of Association.*—Legally, only private sector workers can form unions and strike, while agricultural workers face restrictions and public sector workers may not strike. The government, the private sector and labor are preparing a new labor code pursuant to the peace accords that ended the civil war, but disagreement still exists between the government, management and labor over such issues as agricultural unions. Employees of autonomous public agencies may form unions but cannot strike, a restriction ignored in practice. About 150 active unions, public employee associations and peasant organizations represent some 300,000 Salvadorans, about 20 percent of the work force.

In 1990 the AFL–CIO filed a petition to remove GSP benefits from El Salvador for failure to provide internationally recognized worker rights. The GSP review was extended in 1991, 1992 and again in 1993 as El Salvador worked to draft reforms to its existing labor legislation. A final decision on the case will be made at the end of the 1993/94 review cycle.

b. *The Right to Organize and Bargain Collectively.*—Only private sector unions and unions at autonomous public agencies have the right to collective bargaining, but in practice government workers participate as well. The employment of union officials is protected by law until one year after the end of their term. This measure is generally respected, but some organizers have been dismissed before receiving union credentials. In some cases the government may have impeded the registration of unions through exacting reviews of documentation.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor except in the case of calamity, and this prohibition is generally honored in practice.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits the employment of children under the age of 14, although the labor codes allows it when such employment is considered indispensable to the sustenance of the child, a condition often seen in agricultural families. Children frequently work in small businesses as laborers or vendors, despite the legal requirement that they complete schooling through the ninth grade.

e. *Acceptable Conditions of Work.*—In January, 1993, the government raised the minimum wage for commercial, industrial, service and agro-industrial workers and granted government workers two wage increases amounting to 22 percent. The minimum wage for most workers is 931 colones a month and for agricultural workers, 557 colones. Despite these efforts, approximately 40 percent of the population is estimated to live below the poverty level. The law limits the workday to eight hours and the workweek to 44, requiring premium pay for additional hours. Occupational safety remains a problem because of outdated regulations, limited enforcement resources and a reluctance to strictly enforce regulations.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		34
Total Manufacturing		20
Food & Kindred Products	3	
Chemicals and Allied Products	6	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	3	
Wholesale Trade		1
Banking		2
Finance and Insurance		(1)
Services		3
Other Industries		(1)
TOTAL ALL INDUSTRIES		75

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

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

GUATEMALA

Key Economic Indicators

[Millions of quetzales (Qs) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)	13,249	13,727	14,266
Real GDP Growth (pct.)	3.7	4.8	4.0
GDP (at current prices)	47,034	53,949	62,772
GDP by Sector (percent):			
Agriculture	25.7	25.3	N/A
Utilities	2.5	2.7	N/A
Manufacturing	14.9	14.6	N/A
Construction	1.9	2.3	N/A
Housing	5.0	4.9	N/A
Mining	0.3	0.3	N/A
Transportation	8.1	8.4	N/A
Commerce	24.2	24.1	N/A
Finance	4.2	4.3	N/A
Publ. Adm. and Defense	7.1	7.1	N/A
Other Services	6.1	6.0	N/A
Real Per Capita GDP ('85 prices)	1,392	1,409	1,422
Labor Force (000's)	2,872	2,958	3,047
Unemployment Rate (pct.)[2]	6.7	6.1	6.0
Money and Prices:			
Money Supply (M2)	10,653	12,132	13,709
M2 (annual pct. change)	48.6	13.9	13.0
Base Interest Rate:[3]			
Commercial banks (deposits)	16.0	16.0	14.5
Commercial banks (loans)	23.0	25.0	28.0
Retail Inflation	9.2	13.7	12.0
Exchange Rate (avg. Qs per $)	5.07	5.20	5.95
Balance of Payments and Trade (millions of U.S. dollars):[4]			
Total Merchandise Exports (FOB)	1,230	1,284	1,365
Exports to U.S	445	453	518
Total Merchandise Imports (CIF)	1,673	2,328	2,383
Imports from U.S	764	1,081	1,127
Aid from U.S	111	70	65
External Public Debt	2,254	2,145	2,135
Debt Service Payments	796	722	N/A
Gold and FOREX Reserves	930	877	755
Total Trade Balance	−433	−1,044	−1,018
Merchandise Balance with U.S	−319	−628	−609

N/A—Not available.

[1] Estimated.

[2] Unemployment figures provided by the Guatemalan government do not reflect serious underemployment, estimated as high as 50 percent.

[3] Interest rates are average maximum levels.

[4] Based on Guatemalan Customs Data.

1. General Policy Framework

With a GDP of roughly $11 billion, Guatemala is the largest economy in Central America as well as the biggest importer of U.S. products. The expected 1993 merchandise trade deficit of $609 million with the U.S. is almost double the figure recorded two years earlier, although slightly lower than in 1992.

Guatemala's economy is dominated by a strong private sector, with the government sector accounting for only about 12 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 five traditional agricultural products: coffee, sugar, bananas, cardamon, and meat. After several years of depressed world prices,

export receipts from these traditional products have rebounded somewhat in the last year. Coffee export earnings, for instance, are running 25 percent higher in 1993 than in 1992. The other main productive 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 seven percent annual growth over the last four years. Non-traditional exports such as drawback textile manufacturing and high-value agricultural products now account for about 40 percent of export earnings, up from 17 percent six years earlier. Tourism receipts have more than doubled in the same period and accounted for $235 million in exchange earnings in 1992.

The new administration of Ramiro de Leon Carpio has adhered to the sound fiscal and monetary policies that have been in place since 1991. As a result, the political uncertainty produced by the failed coup attempt of May 1993 has had only a limited negative effect on the economy, with real GDP growth for 1993 expected to be about four percent, down slightly from 4.8 percent in 1992. Growth is expected to be five percent in 1994. Although a jump in net domestic credit in 1992 and the political events of 1993 have had inflationary effects, the Bank of Guatemala has adhered to a number of fairly tight monetary measures and kept prices in check. Beginning in 1991, Guatemala implemented a policy of zero net credit to the central government, which halted the prior tendency to monetize the deficit. For the last two years the central government deficit has been financed primarily by various bonds issued by the Finance Ministry. From a rate of 60 percent in 1990, inflation has averaged slightly over 12 percent in 1991, 1992, and 1993.

Fiscal policy has also been conservative. A self-imposed cap in spending brought a consolidated public sector deficit down from 5.5 percent of GDP in 1990 to 0.8 percent in 1992. The government's plans to eliminate subsidies to parastatals in 1993 were delayed during the change of government, resulting in a higher-than-expected deficit of 2.1 percent in 1993. However, the government is in the process of renegotiating a Standby Agreement with the IMF under which the deficit would be reduced and completely financed by external sources. In addition to cutting losses, the government is making efforts to bring in more resources. A major tax reform was adopted in 1992 which included a broadening of the value added tax and a rationalization of the income tax. Continuing and building on these reforms, the Guatemalan government hopes to raise tax collections from about eight percent of GDP (one of the lowest figures in the hemisphere and a serious impediment to investment in social services or infrastructure) to ten percent.

2. Exchange Rate Policy

Since late 1990, the Bank of Guatemala (BOG) 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, which is held each business day. Bids can be five centavos higher or lower than the reference exchange rate. The reference rate is adjusted after 15 auctions by the BOG at 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 five centavos every three weeks. The quetzal appreciated about seven percent in real terms in 1991 and 1992, but is now depreciating slowly in real terms. The overvalued Guatemalan currency has handicapped Guatemalan exports and contributed to a trade deficit that could reach $1,018 million in 1993.

3. Structural Policies

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 additional "essential goods." Direct government control of production is small and decreasing, with 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 include a lowering of tariffs and narrowing of the tariff band. In addition to reducing price distortions, the tariff reform has removed 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 in the process of 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 and latitude. There is no consistent pattern or judicial review of administrative regulation.

4. Debt Management Policies

Guatemalan external debt continues to be relatively low and has not posed a constraint on imports from the U.S. At approximately $2.2 billion, the debt represents 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 one half of the external debt is with multilateral organizations, primarily the Inter-American Development Bank and the World Bank. Roughly eight percent of the total external debt is owed to the U.S. Agency for International Development, with a somewhat smaller percentage attributable to the U.S. PL-480 program, for a total of approximately $350 million.

In December of 1992, Guatemala signed a stand-by agreement with the IMF and a $120 million Economic Modernization Loan (EML) with the World Bank. Although Guatemala could have borrowed approximately $70 million under the stand-by agreement with the IMF, the government decided to treat the agreement as precautionary and never requested any disbursements. Guatemala did, however, receive the first EML disbursement, of $48 million, in December of 1992. In early 1993, the World Bank agreed to provide an additional $20 million loan for Guatemala's Social Investment Fund. The second tranche disbursement under the EML was scheduled for June 1993 but was not implemented. By that time, Guatemala had missed all the targets under the IMF agreement and had failed to meet several other conditions for disbursement under the EML. Guatemala has not yet met the conditions for disbursement of the first tranche of a $130 million financial sector modernization loan approved by the Inter-American Development Bank in November 1993.

In March 1993, Guatemala reached agreement with the Paris Club on the terms for the rescheduling of some $400 million in official bilateral arrears. In October 1993, Guatemala successfully completed bilateral rescheduling agreements with France, Germany, Canada, and Italy. Total arrears to these countries were $103 million. Guatemala has yet to reach agreement on the rescheduling of the $330 million in arrears to Spain, about three-quarters of Guatemala's total Paris Club arrears.

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. In March 1993, Guatemala adopted the common external tariff of the Central American Common Market, which varies from five to 20 percent on the CIF value of essentially all manufactured goods. The previous three percent tariff surcharge was eliminated, leaving only the seven 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 five to 45 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 45 percent rate. These tariff rates are calculated on an arbitrarily set value 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 varied, with the corn tariff never rising above 20 percent while the tariff on rice rose to over 30 percent in some cases.

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 most businesses, with the exception of telecommunication, domestic transport, fishing, small mining and forestry businesses 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 of the requirement to disqualify any bid more than 30 percent below the simple average of the government estimate and an average of all the bids.

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

Guatemala utilizes subsidized financing of $15 per hundred weight on the export of coffee, a program in effect for most of 1993. Significant tax exemptions are granted to both foreign and domestic enterprises producing for export.

7. Protection of U.S. Intellectual Property

The level of overall protection provided intellectual property is inadequate. New IPR legislation is being prepared by the Guatemalan administration, but it is uncertain when it will be submitted to Congress. Pirating of satellite signals of U.S. cable companies has been widespread and, as a result, the country's Generalized System of Preferences (GSP) and Caribbean Basin Initiative (CBI) trade privileges continue to be under review by the U.S. government. In April 1992, USTR placed Guatemala on the Special 301 "priority 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 agricultural chemical products which last only ten years), broad compulsory licensing provisions and burdensome local exploitation requirements.

Trademarks: Despite Guatemala's expressed intention to adhere to the Paris Agreement on Commercial Trademarks, current law provides inadequate protection due to generally ineffective enforcement provisions against counterfeiters and a lack of adequate measures to protect internationally famous marks.

Copyrights: 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. The principal Guatemalan cable television firm attempted to regularize its relationship with the Motion Picture Association of America, but found it could not compete with the pirates. Currently, all U.S. films shown on Guatemalan television are pirated.

In 1992, the Motion Picture Export Association of America filed a petition to remove GSP benefits from Guatemala for failure to provide an effective level of intellectual property rights protection. The petition was accepted for review. The review was extended through 1993–94 cycle to allow consideration of relevant actions in progress. A final decision is expected by mid-1994.

8. Worker Rights

a. *The Right of Association.*—Bureaucratic procedures necessary to obtain legal authorization to form a union were eased in late 1992, as part of a successful tripartite effort to amend the Labor Code. Regulations to implement these changes remain under discussion with trade union leaders, in an effort to make the procedure as quick and as transparent as possible. Union leaders continue to charge, however, that it is more difficult to register a trade union than it is to register a business. They claim that management often encourages competing unions and/or "solidarity" associations to form when negotiating contracts, and that these groups make "no strike" agreements. Approximately five percent of the Guatemalan work force is unionized.

In 1992 the International Labor Rights Education and Research Fund (ILRERF) and the AFL–CIO filed petitions to remove GSP benefits from Guatemala for failure to provide internationally recognized worker rights. The review has been extended through the end of the 1993–94 review cycle.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code allows collective bargaining, but emphasizes the protection of individual worker rights. Antiunion practices are forbidden, but enforcement requires court action and this is gen-

erally subject to inordinate delay. The labor court system is badly overloaded. One new labor court was added in 1993. The greatest obstacle to union organizing and collective bargaining is not the law, but the inability of the legal system to enforce the law. A series of tripartite discussions took place in 1993 to address these problems, signaling a major change in attitude by both management and labor.

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 claim, with some justification in conflictive zones, that coercion is used to recruit for these patrols. They further charge that forced recruitment is common in the military. The future of the civil patrols, and the question of forced recruitment, will ultimately be decided in an overall peace agreement.

d. *Minimum Age for Employment of Children.*—The Constitution provides a minimum age of 14 for the employment of children, and then in restricted types of jobs. Government statistics indicate that 50,000 children under this age are employed in the formal sector, including agriculture, with only ten percent having legal permission to work. An unknown number are employed in the informal sector as street vendors, beggars and menial laborers. Improving the enforcement of labor regulations has been given greater emphasis by the de Leon administration, but remains 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 have not been effectively enforced. The corps of labor inspectors was expanded in 1993, to provide greater coverage to all aspects of the Labor Code. As noted above, however, the major problem remains that of an overcrowded and politically-aligned labor court system. A minimum wage applies to most workers, but surveys carried out by the Labor Ministry indicate that many workers do not receive the legal minimum 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 specific sectors are not available. Union officials say that international corporations in Guatemala have, in general, been respectful of worker rights. The notable exception continues to be some Asian-owned firms in the textile sector, which produce for the U.S. market. 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		18
Total Manufacturing		80
Food & Kindred Products	42	
Chemicals and Allied Products	13	
Metals, Primary & Fabricated	−3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	28	
Wholesale Trade		−4
Banking		2
Finance and Insurance		6
Services		3
Other Industries		3
TOTAL ALL INDUSTRIES		107

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

HAITI

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	FY1991	FY1992	FY1993[1]
Income, Production, and Employment:			
Nominal GDP (million gourdes)[1]	13,000	13,752	N/A
Real GDP Growth (pct.)[1]	−6.2	−12.6	N/A
Nominal GDP[1]	1,699	1,513	N/A
By sector (percent of GDP):			
Agriculture	28.42	30.00	32.40
Energy and Water	0.97	0.80	0.84
Manufacturing	13.09	12.54	8.69
Construction	6.24	4.90	5.56
Commerce	16.14	16.08	14.53
Rents	6.03	6.75	6.31
Financial Services	0.15	0.13	0.15
Other Services	16.53	19.13	N/A
Social Services	3.80	3.97	N/A
Net Exports of Goods and Services	−9.60	N/A	N/A
Nominal Per Capita GDP (U.S. dollars)[1]	257	225	N/A
Unemployment Rate (pct.)	40–50	50	N/A
Money and Prices:			
Money Supply (M2, pct. growth	4.2	27	34.15
Base Interest Rate[2]	16–22	12–18	14–20
Consumer Price Index[3]	20.6	20.1	27.20
Exchange Rate (gourdes per $):			
Official	5	—	—
Parallel	7.66	9.09	12.43
Balance of Payments and Trade (millions of U.S. dollars):			
Trade Balance	−201.76	−202.43	N/A
Exports	198.72	74.72	N/A
Imports	400.48	277.15	N/A
U.S.-Haiti Trade:			
Exports to U.S.[4]	316.1	122.9	151.9
Imports from U.S.[4]	473.8	194.6	247.1
Trade Balance with U.S	−157.7	−71.7	−95.2
Aid from U.S. (Obligations)	78.9	59.1	84.0
Aid from other Countries	N/A	N/A	51.5
External Public Debt[1] [5]	750	788	830
Debt Service Payments (paid)	51.2	N/A	0
International Reserves (net)	−41.9	N/A	N/A

N/A—Not available.

[1] All 1993 figures and others noted are estimates based on data available in November 1993.

[2] Figures are ranges of actual lending rates, not changes in them.

[3] September to September.

[4] Merchandise trade—data from U.S. Dept. of Commerce on FAS and customs basis, not adjusted for assembly export and re-import.

[5] End of year, includes FY1991 official debt write-off by the United States and France and accumulation of arrears.

Sources: Banque de la Republic d'Haiti, Institut Haitien de Statistique et d'Informatique, USDOC, USAID and embassy estimates.

1. *General Policy Framework*

Haiti has a predominantly agriculture-based, market-oriented economy. Historically its performance has been strongly influenced by the United States, its major trading partner and the largest donor of foreign assistance.

Following the military's ouster of president Jean Bertrand Aristide in September, 1991, the Organization of American states imposed voluntary economic sanctions against Haiti to help restore the democratic government. The United States suspended all but humanitarian aid to Haiti, froze Haitian government assets in the

United States and imposed a broad trade embargo on the country. These sanctions, though suspended briefly between August 31 and October 19, 1993, are still in effect. Humanitarian donations as well as the export of certain medical and food items (sugar, rice, beans, cooking oil, wheat and corn flour, milk, and edible tallow) are allowed under the trade embargo. Articles for assembly, personal hygiene items, school supplies and other goods of a humanitarian nature, may also be traded on a case by case basis under license from the Department of the Treasury's Office of Foreign Assets Control.

Fiscal policy: For the past decade Haiti has run a public sector deficit financed through central bank credit and international aid. The public sector deficit for fiscal year 1992 was estimated to be about five percent of GDP. In fiscal year 1990/91 the deficit was only about 2.7 percent of GDP, after adding in external grants. The growth of the deficit in fiscal year (FY) 1992 was caused both by declining tax revenues and the curtailment of foreign assistance. After an improvement during the brief tenure of president Aristide in FY1991, government revenues declined by over 45 percent in real terms in FY1992. The decrease in receipts can be attributed to the drop in economic activity which lowered both tax and tariff revenues, but widespread tax evasion and the lack of transfers from public enterprises aggravated the problem. The de facto regimes of the past two years were forced to cut government expenditures and re-orient them toward salary payments which accounted for over 80 percent of the Treasury's outlays by the end of FY 1992.

Monetary policy: There is no financial market in Haiti. Under the sanctions imposed during the last two fiscal years, the successive de facto governments have had little recourse to foreign assistance and have relied on domestic credit, mainly central bank financing, to cover the large fiscal deficit. Monetary policy has been conducted mainly through the regulation of reserve requirements, though expansion of credit to the public sector has also been accommodated by the central bank. Overall monetary growth was estimated at 27 percent for FY1992 and 34 percent for FY1993. The official inflation rate for FY1992 was 20.1 percent as measured by the consumer price index, but most reputable economists estimate inflation was closer to 35 percent. The official consumer price index rose by 27.2 Percent in FY1993, but again, informal estimates place inflation significantly higher.

2. Exchange Rate Policy

For decades, Haiti's currency, the gourde, was officially tied to the U.S. dollar at a rate of five gourdes to one dollar. A parallel market in foreign exchange arose in the early 1980's. For several years, the official exchange rate continued to hold for some transactions, such as disbursements of official external loans, petroleum imports and public debt service payments as well as a share of inward transfers and export earnings. Beginning in April 1991, the Government of Haiti removed the 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.

3. Structural Policies

Haiti is essentially a market-oriented economy. Although traditional economic interventionism remains, most visibly through an array of state-owned enterprises, government's role in the economy has been sharply reduced since 1986/87. In the few areas where the government has tried to control prices or supplies, its efforts have been 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, were set by the Government of Haiti, the final consumer paid prices 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 ten percent is applied across the board.

4. Debt Management Policies

Since the coup, Haiti has not serviced its external debt, and arrears to the international financial institutions were estimated at about $53 million dollars as of end-December 1993. Near the end of fiscal year 90/91, total external debt stood at a relatively modest $848 million. 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. The embassy is not aware of any new foreign debt acquired since that time.

5. Significant Barriers to U.S. Exports

The Haiti transactions regulations implementing the President's Executive Orders No. 12775 and 12779 effectively ban the export of most U.S. goods, technology and services to Haiti. In addition, the United Nations has imposed a mandatory embargo on exports of petroleum products and arms to Haiti. On the Haitian side, average effective protection is high at somewhat under 40 percent. 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

Infringement of intellectual property rights has not been a significant issue in Haiti. The economy produces a small variety of products and much of what it manufactures is for export to countries like the United States, which do not tolerate open patent infringements. Most manufactured goods sold here are imported. The most obvious example of intellectual property rights infringement is in the handful of video outlets where poor quality pirated videotapes outnumber legitimate products by a wide margin. Because legal protections for patent or copyright holders are not vigorously enforced, the potential for more extensive abuse of intellectual property rights exists should Haiti's economy improve significantly.

8. Worker Rights

a. *The 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 legal 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, 1993. 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.

In 1993, the AFL–CIO filed a petition to remove GSP benefits from Haiti for failure to provide internationally recognized worker rights. While the petition was accepted, no action was taken due to the continued unsettled political state of the country.

b. *The 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 1993 as in 1992. The rapid deterioration of the economy has also hurt union membership and organizing efforts. For example, the assembly sector, which had been one of the more organized sectors of the economy, has experienced a 75 percent drop in employment since 1991. Even more dramatic declines in employment have occurred in public enterprises, another sector where unions were strongly represented.

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, continues. 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 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. The "restavek" children described previously are not remunerated for their labor beyond room and board. Children 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. Even if it were widely applied, the new minimum would not provide a worker and family with a decent living. 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.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		4
Total Manufacturing		21
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	21	
Wholesale Trade		0
Banking		5
Finance and Insurance		−1
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		29

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

HONDURAS

Key Economic Indicators

[Millions of lempiras unless otherwise noted] [1]

	1991	1992	1993
Income, Production, and Employment:			
Real GDP (1978 Prices)	4,775	5,034	5,210
Real GDP Growth (pct.)	3.0	4.9	3.5
GDP at Current Prices	16,072	18,166	N/A
By Sector:			
Agriculture	3,176	3,436	N/A
Energy and Water	497	580	N/A
Manufacturing	2,250	2,628	N/A
Construction	823	1,123	N/A
Rents	909	1,018	N/A
Financial Services	1,109	1,286	N/A
Other Services	1,434	1,543	N/A
Public Administrations	1,050	1,167	N/A
Net Exports of Goods and Services ($ million)	−360.6	−385.5	−370.0
Real Per Capita GDP (1978 Prices) [2]	978	1,001	1,007
Labor Force (000's)	1,514	1,569	1,614

Key Economic Indicators—Continued

[Millions of lempiras unless otherwise noted] [1]

	1991	1992	1993
Unemployment Rate (pct.)	14.2	15.0	15.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.0	24.7	15.0
Lending Rates [3]	25.2	23.4	26.4
Deposit Rates [3]	12.6	11.8	13.7
Personal Savings Rates	18.9	19.3	N/A
Retail Inflation [4]	34.0	8.8	14.0
Wholesale Inflation [5]	34.3	10.1	14.6
Consumer Price Index	375.1	408.0	448.9
Exchange Rate (lempiras per $):			
Official	5.58	6.47	7.05
Parallel	5.67	6.51	7.00
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB) [6]	823.0	828.6	867.8
Exports to U.S. [6]	418.9	434.2	454.7
Total Imports (CIF) [6]	996.1	1,072.6	1,131.1
Imports from U.S	480.1	448.4	478.8
Aid from U.S	157.3	95.7	55.7
Aid from Other Sources	281.2	520.8	N/A
External Public Debt	3,227.7	3,412.3	3,466.1
Debt Services Paid	146.9	226.3	N/A
Foreign Exchange Reserves [7]	93.4	180.1	83.3
Trade Balance [6]	−173.1	−244.0	−263.3
Balance with U.S	−61.2	−14.2	−18.1

N/A—Not available.

[1] 1993 Figures are all projections.
[2] Lempiras.
[3] September.
[4] August 1992–August 1993.
[5] June 1992–June 1993.
[6] Merchandise trade-in country data.
[7] Liquid foreign exchange reserves at the Central Bank 1991 and 1992 data is as of December 1992; 1993 is as of September, 1993.

1. General Policy Framework

Despite abundant natural resources and substantial U.S. economic assistance, Honduras remains one of the poorest countries in the hemisphere. In the 1990's, the Honduran economy was buffeted by declining world prices for its traditional exports of bananas and coffee. The unfavorable terms of trade, high external debt levels, and flawed economic policies seemed to doom Honduras to a decade of low growth rates and declining living standards.

In January 1990, the newly elected government of President Callejas and the National Party faced a deteriorating economic situation. Moving quickly to confront the crisis, Callejas embarked on an ambitious economic reform program. To stimulate production and investment, the Callejas government dismantled much of Honduras' elaborate system of price controls. The program also consisted of opening up the economy to foreign competition by dramatically lowering import tariff duties and removing most non-tariff barriers to trade. To promote export-led growth, the Government of Honduras adopted a free market exchange rate regime and later legalized/licensed Foreign Exchange Trading Houses. Also, modern national investment legislation was enacted providing generous, non-discriminatory incentives for local and foreign investment.

On the fiscal front, the Callejas government faced a huge, and growing, fiscal deficit. The monetization of the fiscal imbalance was fueling inflation and crowding out private sector investment. To confront the problem, the Government of Honduras adopted a revenue-raising/expenditure reduction package, beginning in 1990. The deficit reduction measures included increases in the sales tax, simplification of the income tax structure, and removal of a number of tax and duty exemptions. In 1991–92, follow-up measures were taken to improve tax collections, dollarize some export taxes, hike public utility rates (water, telephone, and electricity), and raise

petroleum prices. Throughout this period the, government held the line on public sector expenditure increases, and slashed credit and exchange rate subsidies to the non-financial public sector. The deficit reduction program bore fruit, with the fiscal deficit as a percent of GDP declining from 7.1 (at the end of 1990) to 4.3 percent in 1991.

Unfortunately, in 1992, a sharp rise in public sector investment spending reversed somewhat the progress on the fiscal front—with the deficit rising to above five percent of GDP. In 1992, external grant inflows, at 5.6 percent of GDP, financed most of the fiscal gap. To remain within the bounds of their IMF program, the Government of Honduras is attempting to reimpose fiscal discipline by trimming the deficit to below four percent of GDP in 1993.

Since 1990, the Honduran Central Bank has adopted restrictive (anti-inflationary) monetary and credit policies. To promote more efficient financial intermediation, the Central Bank began to phase-in interest rate liberalization. Interest rate ceilings on commercial bank loans were gradually removed in 1990–91, and the Central Bank increased the rate charged to commercial banks for reserve short-falls. These measures led to a rise in deposit rates and restored equilibrium to the credit markets. Currently, Honduras has a free market interest rate policy. Positive, real lending rates in excess of 20 percent have been induced by Central Bank maintenance of a high reserve requirement (currently at 36 percent). The reserve requirement remains the favored policy tool to control money supply growth and inflation. The Central Bank, however, is increasingly using open market operations (bond sales) to control excess liquidity and money supply. In November 1993 elections President Carlos Roberto Reina of the Liberal Party was elected by a wide margin. He had been critical of the economic program and promised to put a more human face on it. He takes office on January 27, 1994.

2. Exchange Rate Policies

Beginning in 1990, the Honduran government abandoned the fixed exchange rate system and gradually moved to a flexible exchange rate mechanism. These phased policy measures allowed for a smooth transition to a floating exchange rate regime in June 1992. To provide a more transparent and efficient foreign exchange market, the Honduran Central Bank legalized and licensed the operations of Foreign Exchange Trading Houses (Casas de Cambio)—previously black market establishments. As of June 1993, there were 15 licensed Foreign Exchange Houses actively competing in this market nationwide. To further open up the market, in 1992 the Central Bank authorized commercial banks to operate foreign exchange trading windows and compete with exchange houses. The foreign exchange reforms have gone far to improve Honduras' export competitiveness in a wide range of industries.

Since January 1992, the lempiras-per-dollar exchange rate has moved from 5.6 to the current rate of 6.9 per dollar, or a 19 percent depreciation. In July 1992, a major speculative run on the lempira prompted the Central Bank to adopt a series of restrictive monetary measures in support of the exchange rate. The Central Bank also charged a number of Foreign Exchange Trading Houses with violation of margin and reporting requirements. The Central Bank temporarily suspended the operating licenses of six exchange houses.

3. Structural Policies

Trade Policy: A critical component of the structural adjustment reforms has been to end the debilitating effects of decades long import-substitution policies. These remedial policies were designed to open up the economy to global competition, force local entrepreneurs to reduce costs, increase productivity, and provide incentives for export-oriented business activity. Among the measures taken was the reduction of tariff barriers to trade, by gradually cutting import duties from a past range of 0–105 percent to the current range of five to twenty percent. The government also removed restrictive and cumbersome import licensing and prior deposit requirements.

Pricing Policy: In an effort to boost production incentives, the government moved fast (beginning in March 1990) to lift price controls on several hundred consumer and industrial products. Price deregulation were implemented on such sacred cow foodstuffs as beans, cooking oil, milk, corn and wheat flour. The government also suspended the operations of the State Marketing Board (IMSHA). In the period 1990–92, painful but necessary price hikes were adopted on gasoline, electricity, water and telephone services. In December 1992, the Government of Honduras moved to a flexible petroleum pricing system that reflects variations in world market prices. As of January 1993, the only existing government controlled prices are for utilities, public transport, and cement. However, in December 1993, the Callejas Administration reimposed price controls on a market basket of 44 basic products.

Tax Policies: Honduras maintains, even by Latin American standards, a high corporate tax rate. The current marginal corporate rate is 52 percent. This rate is generally considered a major disincentive to direct foreign investments not covered by the tax exemptions for export-oriented firms operating in free zones and industrial parks. The chief source of government tax revenue is the seven percent sales tax.

4. Debt Management Policies

On the international front, the main thrust of the Callejas government's reform program aimed at restoring the country's creditworthiness, rescheduling its $3.3 billion external debt, and regaining support from the multilateral development banks. In early 1990, negotiations began with the World Bank, Inter-American Development Bank and the IMF to pay off arrears and reestablish pipeline disbursements being withheld by these institutions. The payments of arrears to the tune of $245.7 million were made possible by a bridge loan from the U.S. Treasury Department.This bridge loan was complemented by additional financing from Venezuela, Mexico and Japan.

In July 1990, the IMF approved a 12-month Standby Arrangement, that was later extended for seven more months. The Stand-by provided Honduras $30 million in balance of payments support funds. Also, in the second half of 1990, the IDB and World Bank renewed pipeline disbursements. The IMF Program and repayment of arrearages to international financial institution paved the way for rescheduling of $350 million of its official debt. The Paris Club deal strengthened Honduras' capacity to service its debt with a number of other creditors including Venezuela, Mexico, and OPEC. In 1991, the United States also provided $430 million in debt forgiveness for Honduras. Finally, the Honduran government reduced its debt obligations with international commercial banks from $245 million due in 1982, to $45 million as of June 1992. A series of privatizations and conversion mechanisms was used to settle these obligations.

In 1991, Honduras classified as an IDA-only country. This opened the door to concessional loans from the World Bank's soft loan window. In July 1992, the IMF approved a three-year (1992–95) Enhanced Structural Adjustment Facility (ESAF), allowing Honduras to obtain a second Paris Club agreement in October 1992. Reflecting the improved debt picture, in 1992 Honduras' debt-service-to-export ratio was a respectable 28 percent.

5. Significant Barriers to U.S. Exports

Import Policy: While the Callejas reforms have gone far to open up Honduras to U.S. exports and investment, a number of protectionist policies remain in place. For example, although all import licensing requirements have been eliminated (with the exception of the consular legalization requirement), Honduras has resorted to an onerous phyto-sanitary system that effectively denies market access to U.S. chicken parts. Similar phyto-sanitary requirements are being used to limit U.S. corn exports to Honduras. The Government of Honduras also maintains a discriminatory automobile import regime, based on engine size, that imposes a steep selective consumption tax on many U.S.-made vehicles.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labelled in Spanish and registered with the Ministry of Health. The laws are indifferently enforced at the present time, however, these requirements may discourage some suppliers.

Services Barriers: Under Honduran law, special government authorization must be obtained to operate tourism, hotel, and banking service investments. Foreigners are not permitted majority ownership of foreign exchange trading companies. Foreigners cannot hold a seat in the Tegucigalpa and San Pedro Sula Stock Exchanges, or provide direct brokerage services in these local exchanges.

Investment Barriers: Several restrictions exist on foreign investment in Honduras, despite the passage of a new National Investment Law in May 1992. For example, foreign investment in a number of sectors requires special state authorization. These sectors include forestry, telecommunications, air transport, and aquaculture. Also the law requires majority ownership by Honduran nationals in several types of investments. These include: beneficiaries of the National Agrarian Reform Law; commercial fishing and direct exploitation of forest resources; and local transportation.

Honduran Law also prohibits foreigners from establishing businesses capitalized at under 150,000 lempiras. In all investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must benefit Hondurans.

Government Procurement Practices: The government Procurement Law (Decree No. 148.5) governs the contractual and purchasing relations of Honduran state

agencies. Under this law, foreign firms are given national treatment for public bids and contractual arrangements with state agencies. In practice, U.S. firms frequently complain about the mismanagement and lack of transparency of Honduran government bid processes. The deficiencies are particularly evident in telecommunications, pharmaceuticals, and energy public tenders.

Customs Procedures: Honduras' customs administrative procedures are burdensome. There are extensive documentary requirements and red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, consular fees, and warehouse levies.

6. Export Subsidies

With the exception of free trade zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law (RIT), passed in 1984, allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties and consular fees—if the product is to be exported outside of Central America. This law also provides a ten-year tax holiday on profits from these exports under certain conditions.

The export processing zones (ZIPS) exempt the payment of import duties on goods and capital equipment, charges, surcharges and internal consumption, and sales taxes. In addition the production and sale of goods within ZIPS are exempt from State and Municipal taxes. Firms operating in ZIPS are exempt from income tax for 20 years and municipal taxes for ten years.

7. Protection of Intellectual Property Rights

Until recently, Honduran legislation on Intellectual Property Rights (IPR) dated back to the early 1900s, and provided inadequate protection. In August 1992, a U.S. decision to review Honduras' status under the Generalized System of Preferences (GSP), as a result of widespread piracy of U.S. satellite signals by local cable television companies, forced the Honduran government to move seriously to modernize its IPR regime.

On August 31–September 1, 1993, the Honduran Congress approved new Copyright, Trademark, and Patent Laws. Honduras is signatory to the Bern Copyright Convention and in May became a member of the Paris Industrial Property Convention. While the new laws represent an improvement, the U.S. Government has identified problem areas and is working with the Government of Honduras to address these problems. A final decision on reveiw of Honduras GSP benefits is expected by mid-1994.

Patents: Until the new Patent Law was approved, terms of patent protection in Honduras were far below international standards. There were numerous exceptions where no protection was provided, such as on pharmaceuticals, textbooks, and certain types of foodstuffs. The new Patent Law is an improvement over the previous law, but it contains several provisions that do not comply with accepted international standards. Most notably, the new law includes several patentable subject matter exclusions, an inadequate patent term for pharmaceutical products and processes, and deficient compulsory licensing and revocation provisions.

Trademarks: The registration of notorious trademarks is widespread in Honduras. Several local firms have profited greatly from the loophole in the old law excluding notorious trademarks. The new law is of generally high quality and consistent with international standards in most respects. The U.S. Government is working with the Government of Honduras on remaining areas of concern.

Copyrights: The piracy of books, music cassettes, records, videos, and cable television is widespread in Honduras. The new Copyright Law provides improved protection for copyright owners. The Honduran government is committed to legalizing the activities of its cable television companies and video store operators.

There are no reliable data on the overall cost of local piracy to U.S industry. However, the Motion Pictures Exporters' Association of America (MPEAA) puts the annual loss of revenues resulting from local cable piracy at $2.5 million.

8. Worker Rights

a. *The Right of Association.*—Workers have the legal right to form and join labor unions, and with the exception of some "parallel" unions formed by the government, the unions are independent. Although only about 20 percent of the work force is organized, trade unions exert considerable political and economic influence. 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 Con-

gress of Industrial Organizations and the International Confederation of Free Trade Unions (ICFTU), strongly opposes these associations on the grounds that they do not permit strikes and have inadequate grievance procedures.

b. *The 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 dismissed 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, subject to the constraints of the minimum wage which was last adjusted in June 1993.

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. Violation of the labor code occurs frequently in rural areas and in small companies. High underemployment have resulted in many children supplementing the family income by working in small family farms, as street vendors, or in small workshops. The Ministry of Labor has the responsibility for enforcing child employment laws, but it lacks the resources necessary to carry out the task.

e. *Acceptable Conditions of Work.*—In May 1993, organized labor and the private sector umbrella organizations agreed on a 14.4 percent increase in the minimum wage, to become 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 the Ministry of Labor lacks the staff and other resources for effective enforcement. Even after the third consecutive annual increase, the minimum wage, which varies by occupation and location, is considered insufficient to provide a decent standard of living, particularly in light of inflation. The law prescribes an eight-hour day and 44-hour week. The labor code provides for a paid vacation of ten workdays after one year and 20 workdays after four years. Employers frequently ignore these regulations.

f. *Rights in Sectors With U.S. Investment.*—There is sizable U.S. investment in Honduras in the petroleum, manufacturing, and assembly sectors. U.S. firms meet minimum wage requirements and observe regulations established in the labor code.

Extent of U.S. Investment in Selected Industries.— U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		92
Food & Kindred Products	(1)	
Chemicals and Allied Products	2	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		14
Banking		5
Finance and Insurance		(1)
Services		(1)
Other Industries		31
TOTAL ALL INDUSTRIES		184

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

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

JAMAICA

Key Economic Indicators

[Millions of Jamaican dollars (J$) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1986 Base Year)	17,458	17,667	17,844
Real GDP Growth Rate	0.3	1.2	1.0
GDP (at current prices)	44,128	72,983	N/A
By Sector:			
Agric., Forestry, & Fishing	3,073	5,777	N/A
Mining and Quarrying	4,817	6,845	N/A
Manufacturing	8,436	14,399	N/A
Construction	5,565	9,382	N/A
Retail Trade	9,299	18,194	N/A
Transportation, Storage and Communication	3,538	5,582	N/A
Real Estate and Business Services	2,173	2,963	N/A
Government Services & Other	3,446	4,408	N/A
Real GDP Per Capita (1986 prices)	7,155	7,182	7,195
Labor Force (000's)	1,072.5	1,074.9	N/A
Unemployment Rate (avg.)	15.4	15.7	N/A
Money and Prices (annual pct. growth):			
Money Supply (M2) J$ millions	17,467	27,817	[2] 34,898
Commercial Interest Rate[3]	40.1	46.4	57
Personal Savings rate	15–21	15–28.8	15–27
Retail Inflation	80.2	40.2	25
Consumer Price Index (Dec.-Dec.)	299	417	521
Exchange Rate (J$ per U.S.$)	12.0	23.0	25.0
Balance of Payments and Trade (millions of U.S. dollars)			
Total Exports FOB	1,150.7	1,052.8	1,112
Exports to U.S	342.0	386.3	400
Total Imports CIF	1,828.6	1,692.8	1,960
Imports from U.S	934.2	882.7	1,019
Aid from U.S. (FY91, FY92, FY93)	80.0	66.6	47.8
External Public Debt	3,874.3	3,678.0	[2] 3,680.0
Debt Service Payments (actual)	620.6	637.9	578.6
Net Official Reserves (year-end)	−443.0	−67.4	[4] 14.3
Trade Balance	−677.9	−640.0	−848.0
Trade Balance with U.S	−592.2	−496.4	−619

N/A—Not available.
[1] Estimated.
[2] As of July 1993.
[3] As of August 1993.
[4] As of June 1993.

1. General Policy Framework

Economic Structure: Jamaica is an import-oriented economy with imports accounting for about 51 percent of gross domestic product (GDP). Tourism and the bauxite/alumina industry are the two major pillars sustaining the economy. In 1992, these two industries accounted for approximately two-thirds (or U.S.$1,387.6 million) of the country's foreign exchange earnings. Hence, both GDP and foreign exchange inflows are extremely sensitive to external economic factors. Agriculture employs 27 percent of the work force, and contributes about seven percent of GDP. The relatively small size of the Jamaican economy, and relatively high costs of production (interest rates, duties on cap'tal inputs, shortage of foreign exchange for importing inputs) has reduced the contribution of the manufacturing sector over the last several years to about 20 percent in 1992. However, the Government of Jamaica has made progress in promoting investment in export-oriented manufacturing enterprises (especially the garment industry) in recent years. About 54 percent of Jamaica's work force is employed in the services sector, contributing 55 percent of GDP.

Economic Policies: The Jamaican economy grew by 1.2 percent in 1992, following a modest growth of 0.3 percent in 1991. The pace of economic growth thus far in 1993 has slowed somewhat due to tight monetary and fiscal policies, the devaluation of the Jamaican dollar, and declining real incomes for the majority of the population. The government has pursued its austerity program in an attempt to moderate inflation and stabilize the Jamaican dollar. The government has reduced public sector operations through privatization of certain public entities and is seeking to divest 30 entities in the next few years to increase economic efficiency. Under the common external tariff, the tariff rate is to be phased down from the current five to forty percent to five to twenty percent by 1998.

Fiscal Policy: The Jamaican fiscal year (JFY) 1994 budget calls for J$40.4 billion in outlays, an increase of 54.2 percent over the previous fiscal year's budget. A major portion of the increase is in recurrent expenditures. In September, the government announced a further increase of J$2.0 billion in expenses due primarily to depreciation of the Jamaican dollar (upward revision in debt service costs). Nearly 40 percent of the budget is allocated for debt servicing. For this fiscal year, the government introduced the largest tax package in Jamaica's history. This package includes an increase in the general consumption tax (from ten percent to 12.5 percent), increased taxation on property, and increased fees for motor vehicle licenses, drivers licenses, permits, transfers of property, among others. Further, in order to ease the pressure for foreign exchange and to reduce inflation to the target of 6.5 percent for FY 93/94 (which was surpassed in the first four months of the fiscal year), the government has increased the issue of local registered stocks, treasury bills and certificates of deposits (offering interest rates as high as 52 percent) to mop up excess liquidity. In the past, the Bank of Jamaica's open market operations were a means by which the Government of Jamaica funded its fiscal deficit. The current budget, however, is a departure from the recent practice of reliance on massive central bank assistance. The central government deficit is estimated at J$11 billion which is proposed to be financed from external debt (60 percent of total deficit) and internal debt (40 percent).

Monetary Policy: The Bank of Jamaica (BOJ) continued to reduce spending demand by issuing short-term certificates of deposit (CDs) and T-bills at very high interest rates (as high as 52 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 generally borrowed by the central government and used to finance current expenditures. Some of the instruments used by the government to control aggregate demand and stabilize the exchange rate include: increasing the reserve requirements of financial institutions, increasing the ceiling on Treasury bills from Jdols. 6.5 billion to J$7.5 billion, and issuing a U.S. $20 million bond (the first such issuance).

2. Exchange Rate Policies

On September 26, 1991, exchange controls were formally eliminated to allow for free competition on the foreign exchange market. Following a substantial devaluation of the Jamaican dollar, the Government of Jamaica in 1992 informally fixed the exchange rate, and only more fully liberalized the exchange regime in the summer of 1993. The principal remaining restriction is that foreign exchange transactions must be effected through an authorized dealer. Licenses are 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.

Due to the shortage of foreign exchange, the Jamaican dollar lost ground by nearly 30 percent in late 1993 to J$28.56 per U.S.$1.00. Further devaluation of the Jamaican dollar is likely and could dampen U.S. exports to Jamaica.

3. Structural Policies

Pricing policies: Prices are generally determined by free market forces. However, prices of certain items such as domestic kerosene, dark sugar, and bus fares are under price controls. Prices of these items can be changed only after ministerial approval. In addition, the profit margins of motor vehicle dealers is restricted to 12.5 percent of CIF plus customs duty on motor vehicles, and between 12.5–20 percent on motor vehicle parts.

Tax Policies: Taxation accounts for 89 percent of total recurrent and capital revenue. Major revenue from taxes include personal income tax (42 percent of tax revenue), value added tax (21 percent), and import duties (14 percent). Although no new taxes were imposed during the current fiscal year, the government proposes to raise additional revenue of about J$3 billion through an increase in existing taxes. This package includes an increase in the general consumption tax (from ten percent to

12.5 percent), increased taxation on property, and increased fees for motor vehicle licenses, drivers licenses, permits, and transfers of property. Jamaica implemented the Caribbean Economic Community (Caricom) Common External Tariff (CET) on February 15, 1991 in order to enhance the region's international competitiveness. 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 40 percent, with higher rates applicable to certain agricultural items, "non-basic" and finished goods. The tariff rate is to be phased down from the current 5–40 percent to 5–20 percent by 1998. The Government of Jamaica offers incentives to approved foreign investors, including income-tax holidays and duty-free importation of capital goods and raw materials.

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

Jamaica's stock of external debt fell to J$3.68 billion in 1992, the lowest since 1986. About 62 percent of Jamaica's debt is long term (over 10 years) at concessionary rates. Cancellation by official bilateral creditors, conversions on commercial bank debt, debt servicing, and reduction in contracting new loans contributed to this debt reduction. 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 5 percent to other entities.

Actual debt servicing during 1992 accounted for 27.1 percent (U.S. $637.9 million) of total goods and services exports, of which 10.39 percentage points represent interest payments. Although the debt per capita decreased by 6.3 percent to U.S. $1,502, debt servicing continues to be a major burden on the government budget. Devaluation of the Jamaican dollar over the last few months has increased the budgetary cost of debt service. Jamaica negotiated a new Multi-year Rescheduling Arrangement (MYRA) with the Paris Club of OECD creditor countries in 1992. The agreement provides for rescheduling of U.S.$281.2 million of principal and interest for the period October 1992 to September 1995. In addition, under a multi-year debt/equity-swap arrangement concluded in 1987 with commercial banks, the Government of Jamaica has been able to convert U.S.$106 million of foreign commercial debt (or about 27 percent of the total) to date.

5. Significant Barriers to U.S. Exports

Government procurement practices: Government procurement is generally effected through open tenders. U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of foreign goods competing with domestic manufacturers are very limited.

Customs procedures: There has been some improvement in the Government of Jamaica's effort to streamline the customs procedures. In order to facilitate the movement of goods, the government simplified the documentation and clearance requirements for exporters. Plans to computerize the entire system are underway.

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 EXIM 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). The Jamaican Constitution guarantees property rights and has enacted legislation to protect and facilitate acquisition and disposition of all property rights, including intellectual property. Jamaica is a member of the Bern Convention (copyright) and intends to adhere to the Paris Convention for the Protection of Industrial Property (i.e., patents and trademarks). The Government of Jamaica and the U.S. Government are presently negotiating an intellectual property agreement.

Patents: There are plans to modernize legislation on patents, trademarks, and designs. Under the present regulations, patent rights in Jamaica are granted for a period of 14 years with the provision of extension for another seven years. The "novelty test" contained in the Jamaican patent law limits the definition of "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. Periods of examination are long; it can take years for a patent to be issued.

Copyrights: The Jamaican Senate passed the Copyright Act in February 1993, and it came into force September 1, 1993. The new act adheres to the principles of the Berne convention and covers a wide range of works, including books, music, broadcasts, computer programs and databases.

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.

Impact on U.S. Trade: Piracy of broadcasts and pre-recorded video cassettes for distribution in the domestic and regional market is widespread. Video stores import more than U.S.$100 million worth of copyright motion pictures and television programs each year.

8. Worker Rights

a. *The Right of Association.*—The Jamaican Constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively.*—Article 23 of the Jamaican Constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. 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 International Labor Organization (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 eight-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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		748
Food & Kindred Products	0	
Chemicals and Allied Products	132	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		42
Banking		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Finance and Insurance	4
Services	14
Other Industries	1
TOTAL ALL INDUSTRIES	850

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

MEXICO

Key Economic Indicators

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

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP (current)	287.2	329.1	367.8
Per Capita GDP (current US$)	3,465	3,897	4,274
Real GDP Growth Rate (pct.)	3.6	2.6	1.1
GDP by Sector (pct. share):			
Agriculture, Forestry and Fishing	7.7	7.3	7.2
Mining	3.5	3.4	3.4
Manufacturing	22.9	22.7	22.1
Construction	5.0	5.3	5.2
Electricity	1.5	1.5	1.5
Commerce, Restaurants and Hotels	25.8	26.0	25.8
Transport, Storage, and Communications	6.7	7.0	7.2
Financial Services, Insurance, Real Estate	10.8	10.8	11.0
Communal Services, Social and Personal	17.6	17.4	18.3
Labor Force (millions)	26.8	27.4	28.2
Unemployment Rate (year-end, pct.)	2.6	2.9	3.1
Money and Prices:			
Money Supply (M1, pct. growth)	[2] 119.8	17.0	20.0
Commercial Interest Rate (pct.)	22.56	18.77	18.45
Savings Rate (pct. of GNP)	16.2	16.7	N/A
Investment (pct. of GDP)—Constant 1980 pesos	19.5	21.7	15.0
Consumer Price Index (Dec.-Dec. growth rate)	18.8	11.9	8.5
Wholesale Price Index (Dec.-Dec. growth rate)	11.0	10.6	5.6
Exchange Rate (NP per $)[3]	3.016	3.115	3.120
Balance of Payments and Trade (billions of U.S. dollars):[4]			
Merchandise Exports (FOB)	42.7	46.2	51.2
Pct. of Exports to U.S	80.0	81.2	82.2
Merchandise Imports (CIF)	50.0	62.1	66.8
Pct. of Imports from U.S	70.5	70.5	69.6
Aid from U.S	N/A	N/A	N/A
Aid from other Countries	N/A	N/A	N/A
External Public Debt	80.0	75.6	78.9
External Debt Service Payments	8.4	7.7	7.7
Gold and FOREX Reserves	17.5	18.6	24.0
Balance of Payments	7.8	1.2	1.0

N/A—Not available.
[1] Estimated.

[2] The large increase in money supply in 1991 resulted from a change in regulatory requirements.
[3] Year-end interbank rate; 1NP=1,000 old pesos).
[4] As of 1993 Mexican data includes imports/ exports for the in-bond sector. Figures for prior years have been adjusted to reflect the change.

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 Pact for Stability, Competitiveness and Employment. The pact has combined traditional austerity measures (tight fiscal and monetary policies) and various unorthodox economic measures (price, wage and exchange-rate controls) with rapid trade liberalization. The Pact has been successful in lowering inflation and restoring economic confidence while preserving moderate economic growth. Between 1987 and September 1993, 12-month inflation fell from 159 percent to 9.5 percent and the annual real rate of economic growth (as measured by the gross domestic product) increased from 1.7 percent in 1987 to 2.6 percent in 1992. Growth slowed to 1.3 percent in the first half of 1993. The current Pact, announced on October 3, 1993, and in effect through December 1994, makes greater economic growth its primary objective but retains strict targets for price inflation. The rate of increase of government-controlled gasoline and electricity prices is reduced to five percent. The minimum wage will increase by approximately 17 percent in real terms between October 1993 and January 1994 through the application of income tax relief and increases in line with inflation, plus an amount equivalent to average productivity increases in the economy. The exchange rate policy under the Pact was unchanged to allow the peso to fluctuate within a range, with its minimum value devaluing at 0.0004 new pesos per day.

For 1992 and 1993, the Mexican government's top two economic priorities have been lowering inflation (through tight fiscal and monetary policies) and maintaining a viable external balance. Tight fiscal policies have driven the overall Mexican public sector deficit down from 4.0 percent of gross domestic product (GDP) in 1990 to a surplus of 0.5 percent. At mid-year 1993, that surplus reached 1.2 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 debt service (the result of lower interest rates and significant reduction in the level of internal debt) and a streamlining of the Mexican bureaucracy.

On the external side, the rapid trade liberalization has resulted in burgeoning current account deficits reflecting growing trade deficits. Mexico joined the General Agreement on Tariffs and Trade (GATT) in August 1986. Between 1986 and 1992, Mexico's merchandise imports increased at an average annual rate of 25 percent, while its exports increased at an average annual rate of only 13.5 percent. Consequently, Mexico began to run a trade deficit in 1990. The trade deficit reached $22.8 billion in 1992 and will be roughly the same in 1993. U.S. companies have been the primary beneficiaries of Mexico's trade liberalization since 70 percent of all Mexican imports come from the United States. In 1992, the United States ran a $5.4 billion trade surplus with Mexico, based on $40.5 billion of exports to Mexico and $35.1 billion of imports from Mexico. This began to change in 1993 as Mexican exports grew at a faster rate than imports. Small- and medium-sized U.S. exporters have been particularly helped by the reform and market liberalization trend, especially given the streamlining of the pre-1986 trade regulating bureaucracy.

Mexico has been able to support large trade deficits by attracting large and growing capital inflows. Mexico ran a $24.1 billion capital account surplus in 1991 and a surplus of $26.0 billion in 1992. These inflows more than offset current account deficits (made up primarily of the trade deficit) of $13.8 billion and $22.8 billion in 1991 and 1992, respectively. In the first six months of 1993, capital inflows of $16.2 billion exceeded the current account deficit of $10.1 billion.

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. The Bank of Mexico raised interest rates in the second quarter of 1992 to maintain the inflow of foreign capital into the Mexican money market. Average interest rates (as measured by 28-day Treasury bills) rose to 19.4 percent by October 1992 and declined gradually to 13.7 percent in September 1993. Commercial rates averaged 18.7 percent in 1992. High interest rates have been successful in attracting the foreign capital needed to finance Mexico's current account deficit, but they have also caused a slowdown in economic growth. During 1992, the Mexican economy grew by 2.6 percent in real terms versus 3.6 percent 1991, and is expected to grow at a real rate of about 1.1 percent in 1993. In 1993, the Salinas administration amended the Mexican Constitution to gradually

make the Central Bank autonomous as of January 1, 1994, ensuring continuity in Mexico's fight against inflation.

2. Exchange Rate Policies

Mexico has managed a floating exchange regime since November 1991. The rate at which large foreign exchange transactions are conducted fluctuates within a band that is defined by the rates at which banks will buy and sell U.S. dollars cash (e.g., small retail transactions). Within the band, the actual exchange rate is determined by market forces. The bottom of the band (i.e., the price a bank will pay for one dollar cash) is fixed at 3.0512 new pesos per dollar. The top of the band (i.e., the price at which a bank will sell one dollar cash) increases by 0.0004 new pesos per day. As of the end of October 1993, there was an 8.27 percent spread between the top and bottom of the exchange rate band.

Inflation in Mexico has been consistently higher than in the United States and the daily devaluation of the peso has not compensated for the difference. Therefore, in real terms the peso has appreciated steadily against the U.S. dollar, by 9.9 percent in 1990, by 9.3 percent in 1991, by 6.6 percent in 1992 and three percent through July 1993. The appreciation of the peso has increased prices of U.S. exports to Mexico at a slower rate than prices of domestically produced goods, providing U.S. made goods a competitive advantage. Moreover, U.S. intermediate and capital goods' exports to Mexico have grown significantly as Mexican companies seek to modernize after a decade of negligible investment, while Mexican consumers maintain a preference for U.S. products due to their quality and variety. In the first nine months of 1993, intermediate goods and inputs to production constituted nearly four fifths of Mexico's imports.

3. Structural Policies

In 1992 and 1993 the Mexican government sought to modernize and increase efficiency of the economy by promoting greater external and internal competition. The privatization of state-owned companies is nearly complete, and a series of laws have been implemented to promote investment and prevent anti-competitive behavior. The North American Free Trade Agreement (NAFTA) signed in December 1992 and its side accords for protection of workers and the environment represent the cornerstone of future Mexican trade policy. The NAFTA was approved by the U.S. Congress and the Mexican Senate in November 1993, and awaits proclamation in Canada. It will be in force beginning January 1, 1994. By year-end 1993, Mexico had also signed or was negotiating free trade agreements with Chile, Colombia and Venezuela, and a group of Central American countries.

NAFTA's key features are:

—Elimination of tariffs, non-tariff barriers and quantitative restrictions on traded merchandise.

—Opening of Mexico's service industries, including financial services, to U.S. firms wishing to invest or provide cross-border services.

—Opening of Mexico's central government and state-owned enterprise purchasing and construction contracts to bidding by U.S. firms.

—Establishment of clear dispute resolution and international arbitration procedures to provide proper protection to U.S. investors in Mexico.

—Commitment from Mexico to afford effective protection for U.S. companies' intellectual property rights.

The process of privatization of state-owned companies has generated $22 billion and shrunk the number of state-owned firms from 1,555 in 1982 to 206 as of October, 1993. Under President Salinas' administration 238 firms—including all 18 commercial banks—have been sold to the private sector or liquidated. Sixty of the remaining firms are for sale. Among companies that have been privatized are the telephone company, a television network, airlines, film theaters and several sugar and food processing plants. The privatization drive has also opened the door for private investment in Mexico's surface transportation infrastructure. The government has announced plans to extend this program for expansion and modernization of air and maritime ports.

Regulation of the Mexican economy has decreased significantly since 1990. In 1993, the government introduced legislation to promote greater competition, limit monopolistic behavior and prohibit practices to restrain trade. A new foreign trade law adopted in 1993 eliminated most non-tariff trade restrictions and established procedures for remedying unfair trade actions such as export subsidies and dumping. The number of unfair trade actions has grown steadily over the past five years, yet they are generally considered to proceed in a fair and transparent manner. Legislation to reduce barriers to foreign investment was introduced into Congress in late November 1993 and was expected to be approved before the end of the year.

Most new regulations affecting U.S. trade have been formulated in anticipation of increased trade under NAFTA. At times these regulations have disrupted trade as a result of poor drafting and/or lack of coordination between various government agencies responsible for their implementation. The Mexican customs service has been modernized and partially automated, and a program to professionalize personnel and weed out corruption is ongoing.

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, which has resulted in large capital inflows and the reopening of international credit markets to Mexican borrowers at progressively more favorable terms. In the first six months of 1993, non-bank private sector Mexican companies issued $558 million of short-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 1992, Mexico's total external debt was $98.5 billion, $75.8 billion of which was held by the public sector (excluding the Bank of Mexico). Mexico's total external debt as a ratio to GDP was 30.1 percent in 1992, down from 47 percent in 1989. It is projected to decrease to 28.5 percent of GDP in 1993.

5. Significant Barriers to U.S. Exports

Import Licenses: Mexico eliminated its universal regime of import license requirements in 1985 and has committed, under GATT and the NAFTA, to eventually eliminate all import licensing requirements. The Mexican government still requires import licenses for 198 product categories including poultry, dairy products, beans, wheat, corn, firearms, some petrochemicals, cars and trucks, and a few other manufactured goods. Import licensing requirements affect less than eight percent of total U.S. exports to Mexico.

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 phasing out of the Auto Decree over ten 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. Under NAFTA, U.S. insurers will be allowed to increase their equity participation in new joint ventures to 51 percent by 1998 and 100 percent by the year 2000, with no limitations on market share. U.S. insurers will also be permitted to establish subsidiaries in Mexico, subject to aggregate market share limits which will be eliminated in 2000. U.S. insurers that have ownership in existing joint ventures may increase their equity participation to 100 percent by 1996. Mexico must also permit its residents to purchase insurance certain services (including life and health insurance, tourist insurance, and cargo insurance) from U.S. firms doing 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 operations of earth stations with international links are reserved for the Mexican government. The NAFTA will eliminate all investment and cross-border service restrictions in enhanced or value-added telecommunications services and private communications networks; most, on entry into force, and the remainder (enhanced packet-switching services and videotext) in 1995. In addition, NAFTA provides for a liberalized regulatory environment for enhanced or value-added services and intracorporate communications systems widely used in business.

Financial Services: Currently, foreigners are permitted to own only minority shares of Mexican financial services companies (banks, brokerages, insurance companies, bonding firms, etc.) and are prohibited from investing in foreign exchange houses or credit unions. About 35 U.S. banks have representative offices in Mexico, but their activities are restricted. One U.S. bank has been authorized for years to provide a full range of services in the Mexican market. Under NAFTA, U.S. financial service firms will be permitted to establish operations in Mexico and enjoy full national treatment—subject to gradually phased-out size and market share limits—and to sell their services to Mexican residents across the border without restrictions.

Motor Carriers: As a result of bilateral consultations and the Mexican government's deregulation of truck and bus operations, bilateral transportation service is more efficient and U.S. charter tour bus operators now have substantial access to Mexico. U.S. freight carriers have access for trailer entry into Mexico through copperative relationships with Mexican carriers who haul U.S. trailers beyond the border into Mexico. Mexican tractors and drivers are required by law to haul all trailers bound for interior points. Mexican authorities are implementing new safety, weight and dimension regulations to meet U.S. standards. Through a 1991 Memorandum of understanding, the two countries have implemented reciprocal recognition of commercial driver's licenses. A schedule for liberalization of market access and investment in land transport operations has been negotiated under NAFTA.

Standards, Testing, Labelling and Certification: The Government of Mexico has traditionally been the primary actor in determining product standards, labelling and certification policy, with little input from the private sector and less from consumers. As a result, independent standards and certification organizations like those in the U.S. are virtually non-existent in Mexico. The Ministry of Trade has begun efforts to reverse this situation, shifting responsibility for the formulation of voluntary standards onto the private sector or to mixed commissions.

In 1992–93, Mexico undertook an ambitious project to revamp its entire system for formulating product standards, testing, labelling and certification regulations. The cornerstone of this review is the 1992 Standardization and Metrology law, which provides for greater transparency and access by the public and interested parties to the regulation formulation process. This exercise has resulted in a reduction of obligatory product standards to just above three hundred. The process is not without its problems, as poorly drafted regulations and inadequate communication between enforcement agencies, such as customs, have occasionally led to trade disruptions. In such instances the Government of Mexico has been receptive to U.S. concerns and willing to resolve problems.

Under the NAFTA, Mexico has affirmed its GATT obligations to base its obligatory standards on international standards and to improve transparency in the standards process. In addition, Mexico has taken tentative steps toward reciprocal recognition of foreign standards and accreditation of foreign test laboratories.

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 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. Mexico has already implemented its commitment under NAFTA to allow, as of June 1993, 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: There is no single central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers. Suppliers from all countries, whether GATT members or not, may bid on government tenders that Mexico opens to international competition and requirements for participation are the same for foreign and domestic suppliers. 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. A specific preferential treatment in public procurement is granted to domestic drug suppliers (which includes foreign companies established in Mexico). 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 Electricity Commission, CFE, which are the two largest purchasing entities in the Mexican government. Under NAFTA, Mexico will immediately open 50 percent of PEMEX and CFE procurement to U.S. suppliers and this percentage will increase in steps until virtually all PEMEX and CFE procurement is open by the tenth year.

Customs Procedures: The Mexican government introduced in 1993 a system to combat under-invoicing of certain imports for customs purposes. The system, ostensibly aimed at Mexico's large informal sector, established a "reference price" on which duty would be charged, absent evidence that the lower declared price was a

valid arms-length commercial transaction and requires some importers to post a bond if the price is below the "reference price". Recognizing some problems in administering the system, the Government of Mexico has told the U.S. government , however, that it plans further modifications in the system soon to bring it more in line with practices in developing countries. However, the system may be inconsistent with NAFTA and will have to be reviewed in that context.

6. Export Subsidies Policies

The Mexican government has no export subsidy program and has informed the U.S. Government that it is in full compliance with a 1986 bilateral understanding 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. Provisions for promoting exports in Mexico's new foreign trade law are limited to training and assistance in finding foreign sales leads. There is no provision for export subsidies.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of intellectual property rights (IPR): the World Intellectual Property Organization, 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 Geneva Phonograms Convention and the Brussels Satellite Convention.

The Mexican government strengthened its domestic legal framework for protecting intellectual property in 1991 with the promulgation of a new industrial property law (patents and trademarks), effective June 28, 1991, and an extensive revision of its copyright law, effective July 1991. Product patent protection was extended to all processes and products, including chemicals, alloys, pharmaceuticals, certain biotechnology, and plant varieties. The term of patent protection was extended from 14 to 20 years from the date of filing. Trademarks now are granted for ten-year renewable periods. The enhanced copyright law provides protection for computer programs against unauthorized reproduction for a period of 50 years. Sanctions and penalties against infringements were increased and damages now can be claimed regardless of the application of sanctions.

Although raids by federal authorities led to the confiscation and destruction of hundreds of thousands of pirated audio and video cassettes in 1992 and 1993, U.S. industry sources estimate that two out of every three audio tapes sold in Mexico still are pirated products (an annual loss of about $240 million). While these raids have affected street vendors, they have not produced indictments or prosecutions of large-scale pirates. In an effort to improve enforcement and put teeth into its IPR laws, the Mexican government formed an inter-secretarial commission in October 1993 to cut through the bureaucratic obstacles hindering effective action to date. In addition, the government began a radio and television advertising campaign designed to raise public awareness of the destructive effects of IPR piracy on Mexico's own economic growth and development.

NAFTA provisions will further strengthen IPR protection by providing for non-discriminatory national treatment of IPR matters, establishing certain minimum standards for protection of sound recordings, computer programs and proprietary data, and by providing express protection for trade secrets and proprietary information.

8. Worker Rights

For an introduction to the Mexican Labor Law System, see "A Primer on Mexican Labor Law," (U.S. Department of Labor) and "A Comparison of Labor Law in the United States and Mexico an Overview," (U.S. Department of Labor 1992). In general, worker benefits mandated by law include paid vacations, maternity leave, end-of-year bonuses, generous severance packages, mandatory profit sharing and a series of social security provisions, including mandatory individual savings and retirement accounts to which employees and employers must contribute.

a. *The Right of Association.*—The Mexican Federal Labor Law (FLL) gives workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed with thousands of unions and a number of labor centrals. 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 so as to sue and be sued, open bank accounts, etc. There have been, however, repeated allegations by labor activists that the federal and state labor authorities improperly use this administrative procedure to withhold registration from groups considered

disruptive to government policies. Privately, mainstream trade unionists and even employers say that administrative blockage does occur at times.

Unions and labor centrals are free to join or affiliate with the international labor organizations and do so actively.

b. *The Right to Organize and Bargain Collectively.*—The FLL strongly upholds the right to organize and 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; such arrangements are commonplace. 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 anti-union discrimination. Collective bargaining has been institutionalized in the "Contrato Ley", industry or sector-wide agreements that carry the weight of law and apply to all firms in the sector whether unionized or not.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced labor. There have been no credible reports for many years of forced labor in Mexico.

d. *Minimum Age for Employment of Children.*—The FLL sets 14 as the minimum age for employment by children. Children age 14 to 15 may work a maximum of six 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 sized companies; it is less certain for small companies. As with employee safety and health, the worst enforcement problem lies with the many small companies. Eighty five percent of all registered Mexican companies have fifteen or less employees, indicating the vast scope of the enforcement challenge just within the formal economy. In 1992, the Mexican government increased from six to nine the minimum number of years that children must attend school and made parents legally liable for their children's non-attendance.

In 1991, the Secretariat of Labor and Social Welfare (STPS) and the U.S. Department of Labor undertook joint studies of both the child labor problems and the nature of the informal economies in Mexico and the United States. The studies were published in late 1992 and are serving as a basis for cooperative efforts to discourage child labor in both our countries. In 1993, the International Labor Organization (ILO) was developing a national action plan against child labor with the Mexican government's Social Development Secretariat (SEDESOL). There were also Mexican government and non-governmental organization media campaigns to convince parents to keep their children in school.

e. *Acceptable Conditions of Work.*—The constitution and the FLL provide for a minimum wage for workers, set by the Tripartite National Minimum Wage Commission (government/labor/employers). In December 1987, this commission agreed on an accord to limit wage and price increases, which has since been renewed annually. Generally in the private sector in the past few years, wages set by collective bargaining agreements have kept pace with inflation even though the minimum wage did not. In August 1993, President Salinas pledged to incorporate labor productivity increases into annual minimum wage increased.

The FLL sets 48 hours as the legal workweek and provides that workers who are asked to exceed three hours of overtime per day or work any overtime in three consecutive days be paid triple the normal wage. For most industrial workers, especially unionized ones, the real workweek has declined to about 42 hours. 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 STPS and Mexico's Institute of Social Security. 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.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		9,281
Food & Kindred Products	1,340	
Chemicals and Allied Products	1,949	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	610	
Transportation Equipment	2,533	
Other Manufacturing	2,043	
Wholesale Trade		777
Banking		(1)
Finance and Insurance		798
Services		325
Other Industries		1,935
TOTAL ALL INDUSTRIES		13,330

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

NICARAGUA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1991 dollars)	1,696.0	1,697.8	1,680.8
Real GDP Growth (pct.)	−0.2	0.1	−1.0
GDP by Sector:			
Agriculture[2]	257.5	256.1	253.8
Energy and Water	50.7	52.2	53.8
Manufacturing	402.2	381.2	374.8
Construction	44.8	47.6	47.1
Rents	71.1	71.5	70.6
Financial Services	55.3	55.3	55.5
Other	74.7	80.6	84.0
Government, Health and Education	190.3	190.4	184.8
Net Exports of Goods and Services	−867.3	−1083.9	−740.1
Real Per Capita GDP	446.7	430.4	410.2
Labor Force (000's)[3]	1,243.4	1,310.0	1,378.7
Unemployment Rate (pct.)	13.0	16.6	20.0
Money and Prices (annual pct. growth unless otherwise noted)			
Money Supply (M1)	95.6	33.4	−25.6
Rediscount Rate (pct.)[4]	11–15	13	13
Personal Saving Rate[5] (pct. of GDP)	10.9	17.0	N/A
Consumer Price Index	865.6	3.5	25.0
Exchange Rate (Cord. per $):			
Official	5	5	6.3
Parallel	5.4	5.5	6.5
Balance of Payments and Trade:			
Total Exports (FOB)	272.4	217.5	205.7
Exports to U.S.[6]	50.0	70.4	85.0

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Total Imports (CIF)	751.4	830.8	653.9
Imports from U.S	110.0	270.5	300.0
Aid from U.S.[7]	274.4	77.0	150.5
Aid from Other Countries	915.2	629.1	473.2
External Public Debt	9,391	10,482	10,485
Debt Service (paid)	55.0	82.5	99.1
Gold and FOREX Reserves	110.5	105.6	28.5
Trade Balance	−479.0	−613.3	−448.2
Balance with the U.S.	−60.0	−200.1	−215.0

N/A—Not available.

[1] Figures are annual projections based on 9 months of data.
[2] Agriculture does not include livestock or fisheries.
[3] Reviewed figure provided by the Nicaraguan Ministry of Labor.
[4] Central Bank rediscount rate for short- and long-term credit.
[5] Based on IMF figures. Personal saving as percent of GDP calculated as difference of consolidated public sector deficit from gross national savings.
[6] Data provided by Nicaraguan Customs, 1993 projection based on 6-month total.
[7] Includes all aid granted.

Sources: The International Monetary Fund (IMF), the World Bank,and the Central Bank of Nicaragua unless otherwise indicated.

1. General Policy Framework

During the 1980's, misguided Sandinista economic policies, political repression, and war combined to devastate Nicaragua's economy, once one of Central America's most advanced. Following her 1990 electoral victory, Violeta Chamorro assumed control of an economy scarred by hyperinflation, depressed per capita income levels, and high rates of unemployment. Economic activity was hampered by inefficient state financial institutions, over-staffed and debt-burdened state enterprises, the confiscation of thousands of parcels of private property, record levels of foreign debt, and a moribund private sector. As the Chamorro government concentrated on bringing peace to the nation, little was accomplished in 1990 on the economic front; Nicaragua's economy contracted for the seventh straight year and inflation soared to 13,490 percent.

In March 1991, the Chamorro administration began an ambitious economic stabilization program, combined with a series of steps to reorganize the national economy along market-oriented lines, and subsequently signed an International Monetary Fund (IMF) Standby Agreement. The government cut public spending, restricted central bank credit, and replaced the nation's devalued currency. The measures yielded impressive results—annual inflation fell from 13,490 percent in 1990 to 775 percent in 1991 and just 3.5 percent in 1992. Encouraged by the government's program, in September 1991 the donor community helped Nicaragua clear arrears of one-third of a billion dollars with the World Bank and Inter-American Development Bank (IDB).

Despite the reforms and a series of fiscal measures (including reduction in a number of national taxes and planned allocations of $280 million for public investments) aimed at spurring growth, Nicaragua's economy failed adequately to respond. The measures, part of the government's 1992 "Economic Reactivation Program," produced few results.

Political turmoil, renewed fighting in northern Nicaragua, inadequate protection of property rights, and interruptions of foreign assistance flows discouraged investors from risking money in Nicaragua during 1992. As a result, the GDP grew by a disappointing 0.1 percent for the year.

Towards the end of 1992, the government was forced to adjust much of its "reactivation" program, restricting spending to avoid expenditures beyond the target fiscal deficit of six percent of GDP. Lower than expected foreign exchange inflows forced the government to enact a new package of austerity measures on January 10, 1993. These measures included the imposition of new luxury taxes, the elimination of a series of tax exemptions, and a 20 percent one-time devaluation of the cordoba coupled with the institution of a "crawling peg" devaluation tied to the dollar, at a rate of five percent per annum.

Intensified austerity efforts in the form of increased vehicle and license-plate fees triggered a transportation strike which paralyzed the country for three days in Sep-

tember 1993. The government was required to rescind the increases, and the incident cast doubt on the government's ability to raise substantially more revenue.

Through the Central Bank's rediscount facility to both state and private banks and directed credit to specific sectors, the Government of Nicaragua also hoped to spur growth during the year. Unfortunately, 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 remains an uncertain and risky business climate. The lack of credit to the productive sector continues to be a major stumbling-block to growth.

The September 1991 IMF Standby Facility expired in March 1993. Throughout the year the government was engaged in discussions with the IMF over an Enhanced Structural Adjustment Facility (ESAF), a three-year program designed to maintain stability and generate growth. Conclusion of the ESAF would also set the stage for a World Bank economic recovery credit and continued lending from other international financial institutions. These potential credit sources represent critical elements for the nation's economic stability, as Nicaragua continues to suffer from a chronic balance of payments gap estimated at $1 billion in 1993. Due to protracted ESAF negotiations, an IMF program would not begin until March 1994 at the earliest.

2. Exchange Rate Policy

In January 1993, the Government of Nicaragua modified its fixed official exchange rate system which since September 1991 had pegged the Cordoba to the dollar at five to one. With its devaluation, the government set the Cordoba at six to one, with a crawling peg schedule adjusted daily, at an annual rate of five percent. A parallel exchange market, legalized in September 1991, continues to operate, supplying foreign currency for specific purposes, including most present current account transactions (imports and the payment of certain bills in dollars).The spread between the official and parallel markets has been generally maintained at two to four percent.

A foreign investment law, passed in mid-1991, guarantees new foreign investors the right fully to repatriate profits and provides for full repatriation of capital three years after the initial investment. Several U.S. companies with investments predating the current law were allowed to repatriate their 1990 and 1991 profits in early 1992, following some difficulties. Formal repatriation of profits through agreements with the Central Bank continue, although at a slower rate. Profits generated by many investments, however, are now commonly repatriated through legal transactions in the parallel exchange market, greatly reducing demand for formal Central Bank-authorized profit repatriation.

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 monopoly regulation of 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), pharmaceuticals and medical goods, petroleum products, and public utilities. In addition, the central government (i.e., Ministry of Economy and Development) commonly negotiates with domestic producers of important consumer goods to establish voluntary price restraints and on several occasions, has purchased emergency stores of important basic foods (sugar, beans, basic grains, etc.) during periods of shortage to maintain domestic supplies and keep down prices.

Tax Policies: Nicaragua maintains a maximum tariff level on most imports of 20 percent on CIF value. In addition, the country assesses a variable selective consumption tax (although most goods are exempt, when assessed, the tax generally falls between ten and 20 percent) and revenue stamps (a flat five percent) on all imported goods. (The government plans to phase out the selective consumption tax sometime in 1994 and replace it with a levy on certain products, whether imported or domestic.) A handful of "luxury items" including grapes, apples, liquors and new automobiles are assessed a luxury tax ranging from ten to 30 percent. Finally, most goods (except basic food items) are subject to a value-added tax of 15 percent paid by the importer upon entry of the good (and often again at point of sale in an effort by the importer or merchant to recover the initial tax expense). Effective import protection, however, is much higher than the total of the customs tariff and other import taxes, as these other taxes are assessed on a cascading basis.

The highest income tax rate is 30 percent (for taxpayers earning more than 180,000 Cordobas Oro per year—or about $29,000 at the official exchange rate of 6.2 to the dollar in October 1993). Taxpayers earning less than 25,000 Cordobas Oro

are exempt from the income tax. The other rates are seven percent between 25,000 and 40,000 Cordobas; 12 percent between 40,000 and 60,000 cordobas; 20 percent between 60,000 and 100,000 cordobas; and 26 percent between 100,000 and 180,000 cordobas. Corporations are levied taxes at a rate of 30 percent. In addition, merchants often complain of municipal and special taxes, such as the two percent flat tax on sales charged by the Municipality of Managua, which tend to increase consumer prices.

4. Debt Management Policies

The Chamorro administration inherited a crushing foreign debt burden from the previous government. By 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. In September 1991, Nicaragua succeeded in clearing its total arrears of $330 million to the World Bank and IDB with the assistance of a $75 million grant from the United States.

After becoming eligible to receive new credits from the multilateral development banks, Nicaragua began to renegotiate its bilateral debt. In 1990/91, Mexico virtually pardoned almost one half of approximately $1 billion owed (rescheduling the other one-half on 12-year terms, including debt swap provisions). The United States forgave $294.5 million in official debt and Venezuela and Colombia effectively forgave a combined $190 million. In 1992, Argentina and Nicaragua agreed upon terms rescheduling Nicaragua's $70 million debt for 15 years with concessional interest and a four-year grace period.

Throughout 1992 and 1993, Nicaragua continued its discussions with the Commonwealth of Independent States and Germany over the large debt owed to the former Soviet Union, and to the former Democratic Republic of Germany (East Germany). Similarly, Nicaragua continues discussions on its debt of roughly $1.3 billion to private foreign banks. The government also continues to seek foreign assistance for a complete buy-back. However, Nicaragua's foreign debt still totals more than six times its GDP.

In December 1991, the 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 may apply to the Paris Club for a reduction of debt after 3 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.

At an April 1993 Consultative Group Meeting, Paris Club members made new pledges of $46.8 million dollars, which, although significant, still left Nicaragua with a substantial financing gap. That gap has been closed by additional sources of assistance, new austerity measures, and the suspension of Paris Club payments. Although there has been some payments problems, Nicaragua has generally remained current on debt to international financial institutions.

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 does maintain a price band variable tariff on the import of basic grains, a high tariff of 240 percent on imports of poultry in parts and 480 percent on unprocessed cattle sides, significant selective taxes on imports of fiscal goods produced locally such as rum, cigarettes, beer and soft drinks and a luxury tax applied to many "non-essential imports"). U.S. exports to Nicaragua have benefitted from overall import liberalization, growing from $78 million in 1990 to 270.5 million in 1992, and an estimated $300 million for 1993. 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, although the government continues to work to make the bureaucratic process less cumbersome. U.S. pharmaceutical importers, however, continue to complain that licensing procedures, continually under review due to a process of regional harmonization of such regulations, continue to delay the entry of some U.S. pharmaceutical products.

Services Barriers: 1991 legislation allowed the establishment of the first private banks in Nicaragua in a decade. Seven private banks are now in operation in the competitive financial market. Although current banking law does allow foreign banks to open and operate branches in Nicaragua, no U.S. bank has initiated the necessary proceedings. One U.S. bank maintains a Nicaraguan banking license, but does not currently operate in-country. Insurance activities remain in the hands of

a state monopoly, although the government is considering legislation which would allow private sector participation in the insurance sector.

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. After some effort, this carrier was given a second Managua frequency. In 1993, four U.S. air passenger and cargo carriers provide service to Nicaragua, and both of Nicaragua's international carriers (passenger and cargo) enjoy landing rights in the United States.

Investment Barriers: A new investment law was passed in June 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 in some cases an "environmental impact study" 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 (e.g., for processing for later export). In early 1993, the Government of Nicaragua lifted its moratorium on lumbering in state forests (representing over 50 percent of national forest area). In the sensitive area of forestry, the government painstakingly reviews all project proposals.

The government continues to move forward with plans to privatize state-owned companies in government-dominated sectors such as energy generation, telecommunications and mining. In the mining sector, a private worker-owned consortium is already active, and several foreign companies have plans to initiate some operations. In October 1993, the government initiated the pre-qualification phase for privatization of the national telecommunications company, which is scheduled to be privatized by June 1994. The government is also expected to release a privatization schedule for the electrical utility in 1994. Since 1991, the government has divested itself of two-thirds of the total of 351 state-owned companies and enterprises, and hopes to finish the privatization process by the end of 1993.

Definition of property rights continues to remain an obstacle to both domestic and foreign investment. Claims for a large number of homes, businesses, as well as large tracts of land confiscated without compensation by the Sandinista Government of Nicaragua have yet to be resolved.

Over 5000 individuals (including more than 400 U.S. citizens) affected by property confiscations have outstanding claims against the Government of Nicaragua. In early 1993, the Chamorro government's administrative property claim resolution mechanism, constructed in late 1992, began to process these claims for some 16,000 individual pieces of property belonging to Nicaraguan nationals and foreigners.

As the resolution mechanism processing the claims continues to function, the Government of Nicaragua has returned a small number of properties to original owners. The majority of cases settled to date, however, have been resolved through compensation. In those cases where it is determined that devolution of the property is not possible, the government pays compensation in the form of government bonds. These 20-year bonds earn three percent interest payable upon maturity, maintain value vis-a-vis the U.S. dollar, and are redeemable through a variety of authorized transactions with the central government (including payment of certain debts and purchase of some government-held properties or state companies).

Lack of an established exchange market makes it difficult to discern a market value for the bonds. Informal trading on the secondary market has been generally conducted from 20 to 40 percent of face value. This bond compensation remains a controversial form of resolution, as the vast majority of U.S. citizen claims have not been resolved and most claimants believe their properties could be returned if the Nicaraguan government had the will to do so.

Customs Procedures: Importers commonly complain of steep "secondary" customs costs including custom declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed custom agents, adding yet another layer of costs. Legitimate importers also complain that "black market concerns" are able to bring in the same goods at greatly reduced tariff rates through informal arrangements with customs officials, and later offer these under-priced goods on the open market.

6. Export Subsidies

In August 1991, President Chamorro signed an export promotion decree, establishing a package of fiscal exonerations and incentives for exporters of non-traditional goods (for this purpose, goods other than coffee, cotton, sugar, wood, beer, lobster and sea-harvested shrimp). Export operations for such products receive exemp-

tion 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. In addition, exporters of both traditional and non-traditional goods are allowed to import inputs (used to produce exports goods) duty free and are exempt from paying the current 15 percent value added tax. The decree also allows for preferential access to foreign exchange for exporters of non-traditional goods.

The export promotion law provides the right to a Tax Benefit Certificate equivalent to 15 percent of the FOB value of exported non-traditional goods. (The percent of FOB value eligible decreases to five percent in 1996.) In May 1993, the first group of Nicaraguan exporters received the certificates, valid for payment on tax or duty fees, or payable 24 months from the date of issue.

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 Economic Recovery Act. Current levels of protection, however, do not meet modern international standards.

Although still 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. In January 1993, the Government of Nicaragua publicly committed itself to accede to the Bern Convention on Copyrights. As of this writing in late 1993, the government has not yet done so.

Since late 1991, the Nicaraguan National Assembly has been considering 110 articles of legislation aimed at increasing protection of copyrights. The U.N.'s World Intellectual Property Organization, among others, has expressed concern that although the legislation would be an improvement over current protection, it remains deficient in many areas, including the failure to explicitly extend copyright protection to foreigners. Copyright protection currently in force, established in the 1904 Civil Code, does not include protection for modern technologies such as bio-patents and computer programs.

The government is also working to modernize its patent and trademark protection and services. In October 1992, Nicaragua, with its Central American neighbors, committed itself to accede to the Paris Convention for the Protection of Industrial Property. The Ministry of Economy and Development has also prepared new patent and trademark legislation which will be presented to the National Assembly. According to preliminary analysis by the U.S. Government, the bill would offer improved protection for national and foreign industrial properties. Nicaragua is a signatory to the following copyright conventions:

—Mexico Convention on Literary and Artistic Copyrights (1902)
—Buenos Aires Convention on Literary and Artistic Copyrights (1910)
—Inter-American Copyrights Convention (1946)
—Universal Copyright Convention (Geneva 1952 and Paris 1971)
—Brussels Satellite Convention (1974)

Trademarks: Notorious trademarks represent a potential problem area for Nicaragua. Although only two instances of infringement involving U.S. companies were reported in 1992 (and none in 1993), current Nicaraguan procedures allow any individual to register a trademark without restriction, at a low fee, for a period of 15 years.

Copyrights/New Technology: Piracy of copyrighted properties continues to be evident as Nicaraguans dedicate increasing financial resources to entertainment. Pirated videos, both imported from neighboring countries and more recently produced locally from pirate "master" copies, are readily available in nationwide video rental stores, as are imported and domestic pirated audio cassettes. It is not uncommon for copyrighted books to be photocopied, or illegally published, as occurred with a recent work by a local author. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals—a practice which continues despite a limited trend of negotiating contracts with U.S. sports and news satellite programmers.

One of Managua's two functioning private television stations similarly transmits (often from video cassettes) pirated U.S. films; the second station ceased the practice in early 1993. The practice, not illegal under Nicaraguan law, has proved especially damaging, as in several instances the abusing television station under-cut the theater market for feature U.S. films being actively promoted. In an effort to avoid some of these losses, in mid-1993 several U.S. film distributors ceased supplying Nicaraguan theaters.

A report prepared in September 1992 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 dollars annually.

8. Worker Rights

a. *The Right of Association.*—The Nicaraguan Constitution guarantees the right of workers to voluntarily organize unions "in conformity with the law" (Article 87). Legally, all public and private sector workers, with the exception of the military and the police, are entitled to form and join unions of their own choosing; they exercise this right extensively. New unions must register with the Ministry of Labor and be granted legal status before they may engage in collective bargaining with management. 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.

The constitution also recognizes the right to strike (Article 83). Workers may strike legally only after they have exhausted other methods of dispute resolution, including mediation by the Ministry of labor and compulsory arbitration. In practice, unions regard these lengthy procedures as too expensive and time consuming and frequently ignore them when initiating a strike. There were numerous strikes in Nicaragua in 1993, but most were declared illegal.

Unions may freely form or join federations or confederations and affiliate with and participate in international bodies.

b. *The Right to Organize and Bargain Collectively.*—The constitution provides for the right to bargain collectively (Article 88). The Chamorro government's labor negotiations in 1993 continued primarily to constitute ad hoc efforts to resolve pressing labor conflicts, usually in the public sector. Despite unfavorable economic conditions and unfamiliarity with the practice following 10 years of central planning, collective bargaining is becoming more common in the private sector.

In July 1992, the International Labor Organization's Committee of Experts on 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 they can come into force violates the Convention on the Right to Organize and Bargain Collectively, ratified by Nicaragua in 1967. No action was taken to modify this provision in 1993.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor (articles 40 and 86), and there is no evidence that it is practiced.

d. *Minimum Age for Employment of Children.*—The constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year (Article 84). Education is compulsory to age 12, and children under the age of 14 legally are not permitted to work. Nevertheless, because of the prevailing economic hard times in Nicaragua, more than 100,000 children reportedly work up to 12 hours a day. Although the Ministry of Labor rarely enforces it, the child labor law is generally observed in the small modern sector of the economy.

e. *Acceptable Conditions of Work.*—Over the objections of labor representatives, a commission made up of representatives of the government, labor, and the private sector set sectoral minimum wages in mid-1991. The labor groups argued that the monthly minimum wage rates (ranging from $30 in the agricultural sector to $39 for central government employees to $50 in the banking sector) were inadequate given the high cost of living. According to a 1991 estimate by the government's National Commission on the Standard of Living, the minimum wage did not provide a family of four with the income to meet its basic needs. Minimum wage levels were not adjusted following the 20 percent devaluation of the Cordoba in January 1993.

Enforcement of the minimum wage is lax, and some workers are reportedly paid less, particularly in the agricultural sector. However, Ministry of Labor surveys indicate that some 86 percent of urban area workers earn more than the minimum wage.

The constitution specifies an 8-hour work day with weekly rest and establishes the right to a safe and healthy work place (Article 82). The standard legal work week is a maximum of 48 hours with one day of rest. The Ministry of Labor's office of Hygiene and occupational security is responsible for verifying compliance with health and safety standards. Although extensive, these standards are not strictly enforced due to an insufficient number of inspectors. Workers have no specific right to remove themselves from dangerous situations without jeopardy to continued employment.

f. *Rights in Sectors With U.S. Investments.*—The above rights are generally observed in sectors with U.S. investment and overall working conditions do not differ adversely from the general description above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		−9
Food & Kindred Products	(1)	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		1
Banking		0
Finance and Insurance		0
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		(1)

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

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

PANAMA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992 [1]	1993 [2]
Income, Production, and Employment:			
Real GDP (1970 prices)	2,036	2,199	2,331
Real GDP Growth (pct.)	9.3	8.0	6.0
GDP (Current Prices)	5,473	6,034	6,456
GDP by Sector (pct. share):			
Agric./Forestry/Fisheries	11.0	10.8	10.4
Manufacturing	9.3	9.2	9.1
Utilities	4.0	3.9	3.9
Construction	3.6	5.3	6.4
Commerce/Hotels/Restaurants	11.9	11.8	11.6
Panama Canal	10.0	9.1	8.6
Oil Pipelines	2.5	1.7	1.5
Colon Free Zone	6.3	7.3	7.8
Transport/Communications	6.9	6.9	6.8
Fin./Insurance/Real Estate	14.6	14.7	14.8
Government Services	12.3	11.8	11.6
Other	7.6	7.5	7.5
GDP Per Capita ($, 1970 prices)	825	876	912
Labor Force (000's) [3]	859	921	949
Unemployment (pct.) [3]	16.1	13.6	12.9
Money and Prices:			
Money and quasi-money	2,863	3,535	4,300
Commercial interest rates:			
Fixed deposit (pct.)	7.5	5.5	5.0
Average lending (pct.)	12.0	11.0	10.5
Gross Savings (pct. of GDP)	12.6	17.3	16.0
Gross Investment (pct. of GDP)	19.5	22.7	20.0
CPI (annual pct. chge.)	1.3	1.8	0.9

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992[1]	1993[2]
Wholesale Prices (pct., annual average)	0.3	2.7	−2.5
Exchange Rate (balboa/$)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Merchandise Exports (FOB)	452	481	500
Exports to U.S. (pct.)	44	45	45
Total merchandise imports CIF	1,695	1,827	2,007
Imports from U.S. (pct.)	37	40	40
Aid from U.S	95	234	42
External public debt	5,414	5,204	5,369
Debt service paid[4]	272	230	234
Foreign assets	499	504	566
Balance of payments:			
Current account	−103	−41	N/A
Foreign Investment	−31	1	N/A

N/A—Not available.
[1] Estimated.
[2] Projected.
[3] Data Revised October 29, 1993.
[4] Excludes clearance of arrears to International Financial Institutions (IFIs) in 1992.

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for 70 percent of gross domestic product (GDP). Services include the Panama Canal, banking, insurance, government, the trans-isthmian oil pipeline, and the Colon Free Zone (CFZ). Manufacturing, mining, utilities, and construction together account for approximately 20 percent of GDP. Agriculture accounts for about ten percent of GDP. Panama's economy continues to grow in 1993, but at a slower rate than in 1992 and 1991. Private construction and capital goods spending plus CFZ activity and certain services exports have been the main sources of growth.

The government has not followed through on key economic policy reforms to reduce the public sector payroll, liberalize the trade regime, privatize state-owned enterprises, and foster job-creation through labor code reforms. As a result, goods and services exports in particular are not assuming the dynamic growth trajectory previously anticipated. Medium-term prospects for strong economic growth and job-creation have accordingly dimmed.

The use of the U.S. dollar as Panama's currency means that fiscal policy is the government's principal macroeconomic policy instrument. Because Panama does not "print" a national currency, government spending and investment are strictly bound by tax and nontax revenues (including Panama Canal receipts) and the government's ability to borrow.

2. Exchange Rate Policies

Panama's official currency, the balboa, is pegged to the U.S. dollar at one balboa to one U.S. dollar. The fixed parity means price and availability of U.S. products in Panama depend on transport costs and tariff and nontariff barriers to entry. 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 has declared its policy commitment to trade liberalization, but liberalization is proceeding very slowly in practice. Early in 1993, the Panamanian government lowered ad valorem tariff rates to 40 percent on industrial products and 50 percent on agro-industrial products for some 227 product classifications, while a 60 to 90 percent rate was applied to some 60 sensitive agricultural products. In July 1993 another decree eliminated specific tariffs on about 280 tariff line items. The legislative assembly and private sector interests have challenged several of the above policy measures and other government actions removing nontariff barriers on agricultural products. The issues are currently pending with the supreme court.

Panama is an observer to the General Agreement on Trade and Tariffs (GATT) and took a major step toward full GATT membership when it submitted its Foreign Trade Memorandum to the GATT in May 1993.

Panama enacted a new tax law in December 1991 and a privatization framework law in July 1992. The tax reform act that reduces corporate income tax rates to 30 percent by 1994 should stimulate economic activity. The privatization law does not allow for debt for equity swaps, and while intended to accelerate the process, the actual privatization of eligible state enterprises under the framework act is proceeding very slowly. In addition, the Legislative Assembly in the spring of 1993 rejected a bill which would have permitted privatization of the state telecommunications company.

4. Debt Management Policies

Panama is current on interest and principal due to the IMF, World Bank, Inter-American Development Bank, and International Fund for Agricultural Development. It cleared $645.8 million in arrears with these institutions during February/March 1992. Panama also 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).

Following through on the plan adopted in 1992 to deal with its external commercial debt, in 1993 the Government of Panama held two meetings (in April and September) with its Bank Advisory Committee in New York. While no deal was reached as a result of these discussions the Government of Panama remains committed to reaching an agreement with its external creditors. 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. Total debt will increase to an estimated $5.4 billion in 1993 (83 percent of GDP).

5. Significant Barriers to U.S. Exports

Panama's economic reform program continues to face legal obstacles. Certain trade liberalization policies are being legally disputed and other measures have raised procedural questions. During this transition period uncertainty over the applicability of government decrees and laws creates artificial, presumably temporary barriers to U.S. exports.

The Panamanian agricultural sector is protected by significant nontariff barriers. Agricultural products such as corn, beef, dairy products, soybeans, and wheat are controlled by the Ministry of Agriculture and the Agricultural Marketing Institute (IMA). Import permits are required from the Ministry of Agriculture for imports of animal products, animal by-products, and seeds. In 1993, the government passed a law restricting imports of poultry products based on zoosanitary restrictions and trade reciprocity.

IMA maintains a list of 48 agricultural products under import quota and 30 products under import permit. Recently, the government issued several decrees (effective December 1, 1993) eliminating seven products from the list of products under quota and two from the list of products under import permit.

Product registration requirements, which were previously applied prior to market entry (by customs authorities) now become effective 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 Panamanian government 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.

A limitation in Panamanian law on foreign government ownership of land affects a few U.S. government investment insurance programs, but places no legal limitations on foreign private investment or ownership; Panamanian authorities are working on nullifying this legal provision.

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.

Panama does not have an investment screening mechanism, and the Panama Trade Development Institute 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 ten 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 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 also are 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. However, Companies that benefit from these exemptions are not eligible to receive CATS for their exports.

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 (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, and the Universal Copyright Convention, but it is not a member of the Bern Convention for the protection of Literary and Artistic Works or the Paris Convention for the Protection of Industrial Property. Panama signed with other Central American countries a declaration of intent to join the Paris Convention in October 1992. 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.

The Legislative Assembly's Commerce and Industries Committee is considering an industrial property law, modeled after the Mexican industrial property rights law. The draft law establishes a standard of 20 years of protection for all patent holders, in place of the current range of five to 20 years for Panamanians and five to 15 years for foreigners. The bill also protects processes.

The draft law imposes a working requirement on patent holders, although the patent holder can satisfy the working requirement by importing the product. Under the draft law, the government may issue compulsory licenses only after notice to and a hearing for the patent holder. In addition, a patent holder may still preserve his rights by beginning manufacture or importation within one year of the initial notification of the compulsory licensing proceeding. The recipient of a compulsory license must have the capacity to manufacture the product himself in Panama.

The draft law also provides for protection of trademarks and trade secrets. The bill simplifies trademark registration, and gives protection for ten years, renewable for an unlimited number of additional ten-year periods.

Existing Panamanian law does not provide specific protection for computer software, integrated circuits, or semiconductors chips. 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.

The Legislative Assembly also approved a comprehensive copyright bill in first debate in October 1993. Two more debates are required prior to final approval. The bill draws on both a WIPO draft and the recent Mexican copyright law. It would strengthen copyright protection, facilitate prosecution of copyright violators and make copyright infringement a felony, punishable by fine and incarceration. The bill also would protect computer software as a literary work.

Video piracy is a major concern in Panama. Some firms are illegally reproducing videos and distributing them from the Colon Free Zone (CFZ) to Panama, Central America, and elsewhere in South America. Recently, some U.S. firms, particularly textile firms, have also complained about trademark infringement by firms in the CFZ and about use of the CFZ as a transshipment point for pirated products.

8. Worker Rights

a. *The Right of Association.*—Under the Panamanian labor code, private sector workers have the right to form and join unions of their choice, subject to registration by the government. Workers in the CFZ and the banking sector, however, are effectively denied this right through the de facto exclusion of unions in these sectors. According to Ministry of Labor statistics, approximately 24 percent of the private-sector workforce is organized. Most public sector workers are not permitted to organize unions or bargain collectively, but do have the right to form representative associations. Workers of certain state owned companies, such as public utilities, are unionized. Civil servants are not permitted to strike, however, and in the absence of good will between the government and public employees, there is no effective avenue for addressing employee grievances. There are no restrictions on the civil lib-

erties of unionists. Unions may freely form or join federations, confederations, and international bodies. Unions have the right to strike.

b. *The Right to Organize and Bargain Collectively.*—As noted above, the Panamanian labor code grants individuals the right to organize labor unions and employee associations. On January 13, President Endara signed Law 2 of 1993 which restored full freedom of association and collective bargaining rights to workers in the private sector. Earlier, Law 25 of November 1992 amended Law 16 of 1990 by reimposing the obligation of firms operating in export processing zones to enter into collective bargaining agreements with workers. Panama's labor code prohibits anti-union discrimination by employers. Disputes or complaints may be brought to a conciliation board in the Ministry of Labor for resolution. The labor code provides a general mechanism for arbitration once conciliation procedures have been terminated.

In 1991 the AFL–CIO filed a petition to remove GSP benefits from Panama for failure to provide internationally recognized worker rights. In June 1993, Panama was found to have taken steps to improve worker rights conditions and the review was ended.

c. *Prohibition of Forced or Compulsory Labor.*—The Panamanian labor code prohibits forced or compulsory labor, and there are no reports of either 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. Enforcement of these provisions is triggered by a complaint to the Ministry of Labor which can order the termination of illegal employment. Child labor provisions were generally enforced in Panama in 1993, although less so in the interior of the country because of insufficient resources to monitor any abuses.

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 in which some workers earn below the minimum wage. In December 1992, the government decreed a 20.5 percent nominal increase in the minimum wage effective January 1, 1993. While the minimum wage varies according to region and type of work, the prevalent minimum wage increased from $.78 per hour to $.94 per hour.

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 also sets 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		694
Total Manufacturing		622
Food & Kindred Products	18	
Chemicals and Allied Products	76	
Metals, Primary & Fabricated	1	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	13	
Wholesale Trade		369
Banking		(1)
Finance and Insurance		10,059
Services		139
Other Industries		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	11,457

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

PARAGUAY

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1982 prices)	6,935	7,056	7,305
Real GDP growth (pct.)	2.5	1.7	3.5
GDP (at current prices)	6,254	6,678	6,925
By Sector (pct.):			
Agriculture	26.7	26.3	26.9
Energy and Water	3.4	3.8	4.0
Manufacturing	15.9	15.6	15.5
Construction	5.2	5.4	5.3
Financial Services	26.9	26.5	26.7
Other Services	9.5	9.6	9.7
Government, Health and Education	4.6	4.8	4.8
Net Exports of Goods and Services ($ million)	−821.3	−805.6	N/A
Real per capita GDP (1982 BPS)	1,323	1,280	N/A
Labor Force (000s)	1,597	1,641	1,692
Unemployment Rate (pct.)	11.0	10.0	11.0
Money and Prices (annual pct. growth, unless otherwise noted):			
Money Supply (M2)	23.1	26.1	28.7
Base Interest Rate (avg. annual rate in percent)	27.0	30.1	30.9
Savings/GDP	18.3	19.5	18.9
Wholesale Inflation	12.4	4.0	5.4
Consumer Price Inflation	11.8	17.8	18.7
Exchange Rate (GS/$)	1,327	1,500	1,750
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports FOB [2]	737	656	729
Exports to U.S	34	31	66
Total Imports CIF [2]	1,275	1,237	1,358
Imports from U.S	375	415	420
AID from U.S	1.2	2.9	4.4
External Public Debt	1,637	1,240	1,201
Debt Service Payments (paid)	219	629	130
Gold and FOREX Reserves	978	604	650
Merchandise Trade Balance	−538.2	−581.1	−630
Balance with U.S	−341	−384	−355

N/A—Not available.
[1] Figures are estimates based on data as of October, 1993.
[2] Merchandise trade; figures exclude unregistered re-exports.

1. General Policy Framework

Paraguay, with a total land area of 154,047 square miles and a population of 4.2 million, according to the 1992 census, has an annual population growth rate of 2.8 percent. The country has a predominantly agricultural economy and vast hydro-electric potential but no known significant mineral or petroleum resources. The Paraguayan economy, with its established export industries of cotton, soybeans, cattle, electricity, and the lucrative business of re-exporting products made elsewhere, is particularly vulnerable to the vagaries of weather and the fortunes and misfortunes of the Brazilian and Argentine economies. The country's predominantly agricultural economy, which includes crop and livestock production, forest exploitation, and fishing activities, continued to depend heavily on the production of cotton and soybeans. Recent government estimates project economic growth in the 3.5 to five percent range for 1993. The projected increase is due to the sharp increase in soybean production and the-better-than-expected cotton output. Moreover, increases in international prices for these two commodities contributed to the improved outlook.

A coup d' etat on February 3, 1989 marked the end of 34 years of General Alfredo Stroessner's repressive regime and the beginning of a transition process to democracy in Paraguay. General Andres Rodriquez presided over the political and economic changes that culminated on August 15, 1993 with the inauguration of President Juan Carlos Wasmosy, the first freely-elected civilian president in the country's history.

The new government has pledged to continue the market-based economic reforms begun under the Rodriguez administration, and specifically work to keep expenditures in line with revenues; combat inflation; keep customs duties low and uniform; place no restrictions on capital flows; and, put more emphasis on production and export.

Under the Wasmosy government, the Central Bank is expected to maintain the restrictive monetary and credit policies that have been in effect since late 1990. The Inter-American Development Bank's investment sector loan, recently approved by the congress, requires reform of the Central Bank and the Superintendency of Banks. The modernization of the Central Bank would provide the monetary authorities modern tools for the management of monetary policy. The government has stated that it intends to promote financial reform to encourage economic development and to limit credit to the public sector. At the same time it would create mechanisms for obtaining international financing for the private sector.

Since 1991, the Paraguayan government has made control of government expenditures one of its top economic policy priorities. The government has tried to maintain a tight rein over expenditures to avoid deficit spending. The 1993 budget submitted to Congress provided for a deficit of 1.7 percent of GDP. Congress subsequently raised government expenditures by approximately $80 million without providing additional revenue. Royalties from Itaipu dam represent a major source of revenue for the Paraguayan treasury. Itaipu's long delays in paying have created serious budget management problems for the Ministry of Finance. President Wasmosy indicated that his administration would manage government expenditures prudently. Currently, 94 percent of the government budget is used to pay for current expenditures. This leaves only six percent for investment in infrastructure. Tight monetary and credit policies, including restraint in the growth of monetary aggregates and high legal reserve requirements, have helped to control inflation, which declined sharply, from nearly 45 percent in 1990 to 11.8 in 1991. In 1992 inflation rose to 18 percent, primarily as a result of bad weather, which affected crop yields, and subsidized credit for cotton and soybean growers. Despite increases in the money supply, 30 percent in 1991 and 36 percent in 1992, inflation has remained below 20 percent annually, presumably as a consequence of weak demand. In early 1993, in a pre-electoral campaign period, the government increased expenditures using extraordinary funds provided by the Central Bank without a corresponding increase in tax revenues or borrowing from the public. This exacerbated inflationary pressures during the first five months of fiscal year 1993. The twelve month inflation rate has been hovering near 18 percent during 1993.

2. Exchange Rate Policy

Since February 1989, Paraguay has maintained a freely floating foreign currency exchange market. Occasionally, the Central Bank intervenes to contain erratic fluctuations and speculative market forces. The prevalence of relatively high real interest rates has attracted large capital inflows that have contributed to an excess supply of dollars in the local market, preventing a more rapid depreciation of the guarani. An additional factor is the re-export trade which produces dollar income. The big gap between real interest rates in the U.S. and Paraguay encouraged dollar savers to move their funds to Paraguay where they can obtain higher interest returns.

3. Structural Policies

Economic reform: Soon after the overthrow of the Stroessner dictatorship, the government headed by Andres Rodriguez implemented bold economic reform measures. The market-oriented reforms sought to restore business confidence and to improve macroeconomics management. Exchange rate and interest rate liberalization stand out as the most effective reforms. The Wasmosy administration has promised to continue the reform of the economic system and to speed up privatization and financial sector reforms.

Exchange rate reform: In February 1989, the Rodriquez administration devalued the guarani (the local currency), eliminated foreign exchange rate controls, abolished multiple official exchange rates, and established a single freely floating exchange rate. Since then, the value of the guarani has been set by free market forces. This measure greatly reduced economic distortions and eliminated the opportunities for corruption and graft in the management of foreign exchange.

Tax reform: In 1992, the government implemented a new simplified tax code approved the previous year. The law eliminated burdensome taxes and reduced tax rates in an attempt to reduce tax evasion and promote investment. The government reduced the number of taxes from 84 to seven and expanded the tax base with the implementation of the value added tax (VAT). Compliance with the VAT has been lower than expected, primarily as a result of inexperience in its administration. The new government intends to introduce additional tax reforms, and establish tax incentives to promote investment. The new minister of finance has promised to establish heavy penalties for tax evaders.

Tariff reform: In mid-1992, the government implemented a sweeping import tariff reform. The measure included sharp reduction of customs duties and the elimination of administrative barriers to promote trade. Nevertheless, the government continues to ban a number of products of agricultural origin.

4. Debt Management Policies

In 1992, the government reduced external debt with both official and commercial creditors. This was done by repurchasing a sizable amount of the delinquent commercial debt in the secondary market at a substantial discount and by paying off all official debt arrears through reduction of reserves. As a result, Paraguay's total foreign debt declined sharply, falling 23.2 percent, from $1,636.7 million at the end of 1991 to $1,249.0 million at the end of 1992. This decline resulted from the decision of the administration of President Andres Rodriguez to normalize relations with foreign creditors. The full payment of arrears was accomplished without assistance from the IMF or the Paris Club. The government used foreign official reserves in the amount of $629.4 million to settle in cash outstanding debt payments with foreign creditors. That amount included $381.1 million for payment of principal and $248.2 million for payment of interest. Since the end of 1992, Paraguay has been meeting its obligations with most foreign creditors in a timely fashion. The government's decision to eliminate arrears with foreign creditors has helped improve Paraguay's creditworthiness. We expect the Wasmosy government to improve relations with the IMF.

5. Significant Barriers to U.S. Exports

Although a few import bans will remain in effect until the end of 1994, U.S. exports to Paraguay continue to grow. Government policy is to encourage free trade and capital flows, particularly with traditional trade partners like the United States. U.S.-made products and consumer goods are widely accepted and have a good reputation for quality. New U.S. products appear every day in Paraguayan shops. Nevertheless, U.S. goods face strong competition from East Asia. Major sectors for U.S. exports include computers and peripherals, machinery, automobiles (especially four wheel drive vehicles), auto parts, and consumer goods. The declining dollar has been helpful for processed food exports, which face strong competition from Brazil. Other sectors of interest include agricultural equipment and river barges. In the re-export market, U.S. companies are strong in the areas of computers and peripherals, sporting goods, cigarettes, and photo equipment. 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 $414.9 million at the end of 1992. This represents a more than 1,000 percent increase over the decade.

There are no restrictions on foreign investment, except for activities reserved for state monopolies (cement, electricity, water, and telephone), which remain closed to both national and foreign private investment. Paraguay welcomes and offers an open climate for foreign investors, who enjoy the same legal rights as do national investors. The Rodriguez administration established a number of fiscal incentives to promote investment, both domestic and foreign. The government also signed a new

agreement with the Overseas Private Investment Corporation on September 24, 1992.

The legal framework governing investment incentives is contained in Law 60/90. The fiscal incentive package includes total exemption from certain taxes on the establishment of operations and reduction of customs duties on imports of capital goods. There is a 95 percent corporate income tax exemption for five years. The law is based on the principle of national treatment and makes no distinction between domestic and foreign investors. The Ministry of Industry and Commerce is responsible for the administration of the investment incentive law; the Ministry of Finance oversees all tax matters. Foreign corporations doing business in Paraguay are subject to the same tax rules as those applied to domestic business entities. With the implementation of the new tax system, corporate income will be subjected to a 30 percent tax rate. As a further incentive to investment, the government has reduced the income tax rate on reinvestment profits to ten percent. All entities are subject to tax except those which can claim tax exemption under special laws. The taxation of branches engaged in business operations is the same as for corporations.

6. Export Subsidies Policies

Paraguay has a free enterprise economic system. Government policy is to promote free competition. Although there are still activities that are state monopolies, the government does not subsidize exports. Government credit facilities provided by banks to agricultural producers of soybeans, cotton, and wheat perhaps is the most indirect support related to the issue. In June 1993 Paraguay became a member of the General Agreement on Tariffs and Trade (GATT).

7. Protection of U.S. Intellectual Property

Paraguay's chief problem in the area of intellectual property rights (trademark, patent, and copyright) is the lack of effective enforcement of existing laws and regulations. Another negative factor is the slow pace of the judicial system in issuing timely and clear decisions on intellectual property infringement cases. This is in great part a remnant of the corruption and graft that were prevalent during the Stroessner years. The U.S. government has ongoing discussions with the Paraguayan government on issues that must be addressed by Paraguay to establish an adequate intellectual property regime.

Patents: Law 773 of September, 1925 established an Office of Patents of Invention and the rules and procedures for obtaining patents. Patents are granted for 15 years and may be renewed. Decisions of the patent office are subject to appeal. In principle, foreign patents must be registered in the office of patents of invention and are subject to the same procedures and fees as national patents.

Trademarks: The procedure for registering a trademark is analogous to the U.S. system. Anyone may register a trademark and the process is relatively simple and inexpensive. The person who registers a trademark enjoys legal protection for ten years. This period may be extended indefinitely for ten-year periods by requesting it before the expiration date. Ownership of a trademark may be transferred by contract. It may also pass to the heirs of the holder by succession, and may be included in the provisions of a will. A firm whose products are sold in Paraguay should register its trademarks in the country.

Copyrights: In 1991, Paraguay became a signatory to the Bern Convention for the Protection of Literary and Artistic Works. Previous widespread production and trade in pirated recordings and video cassettes has been reduced by vigorous Paraguayan government law enforcement action. Reportedly, production of pirated sound recordings is taking place along the border with Brazil, for export to that country.

8. Worker Rights

U.S. Generalized System of Preferences (GSP) benefits for Paraguay were suspended in 1987 for violation of labor rights under the Stroessner regime. However, GSP benefits were again reinstated in February 1991, in recognition of improvements in worker rights under the Rodriquez government and the promise that the government would pass a new labor code with internationally accepted protections for labor. In 1993, the AFL–CIO filed a petition requesting suspension of GSP benefits for worker rights violations and for failure to approve a new labor code. On October 28, 1993, the Paraguayan Congress approved a new labor code that meets ILO standards. As a result the AFL–CIO petition was withdrawn in December 1993.

Labor reform: In 1991, the government submitted a draft labor code to the Congress to replace the nation's antiquated code. Debate on the code was arduous and appeared to end abruptly when the executive withdrew the code from congressional consideration in March 1993. The bill was reintroduced, however, that same month by members of the Chamber of Deputies. The bill was approved by both chambers of congress and submitted to then President Rodriguez, who vetoed the proposed

labor code in July 1993. The Chamber of Deputies overrode the veto on August 10, and the Senate did the same on October 28, 1993. President Juan Carlos Wasmosy, signed the bill into law on October 29.

a. *The Right of Association.*—For the first time in Paraguay's history, both private and public sector workers are free to form and join unions without government interference. Provisions of the 1992 Constitution superseded the existing labor code, which did not permit public sector worker unions. The new Constitution established principles and protections for fundamental worker rights, including the right of association. It also contains an anti-discrimination clause, provisions for employment tenure and severance pay for unjustified firings, collective bargaining, and the right to strike. Under the new Constitution, the public sector (excluding the police and military) was most active in forming unions in 1992. Public employees, representing six percent of the total labor force, formed or were in the process of forming unions in several areas including the Central Bank, other state banks, the telephone utility, the Social Security Administration, the Civil Air Authority, the airport, and the Foreign Ministry, among others.

In principle, unions are independent of the government and political parties, although the case of the Confederation of Paraguayan Workers (CPT) is linked with the ruling Colorado Party. Approximately five percent of Paraguayan workers are organized. That percentage may change as public employees take advantage of constitutional protections for public sector unions. Unions are free to maintain contact with regional and international labor organizations.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected by law and has been successfully conducted in many cases. Collective contracts are still the exception rather than the norm in labor/management relations. While the constitution prohibits anti-union discrimination, the firing and harassment of some union organizers in the private sector continued in 1992. Under present legislation, fired union leaders can seek redress in the courts, but the labor courts have been slow to respond to complaints. As in previous years, in some cases where judges ordered fired workers reinstated, the employers disregarded the court order.

There were 19 strikes by unions affiliated with the independent labor federation (the C.U.T.), 12 of which were directly related to the firing of union organizers, management violations of a collective contract agreement, or management's effort to prevent workers from freely associating. Agreements with the transportation workers unions went unfulfilled by owners and management in 1992. Teachers Associations also protested throughout the year the failure of the Education Ministry to meet minimum wage standards. The failure to meet salary payments frequently precipitated labor problems, especially in the public health sector. Labor attributes the lack of action on complaints filed with the labor ministry to bottlenecks in the judicial system. There were also complaints of management creating parallel "factory" unions to compete with independently formed unions.

Paraguay has no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by law and is not practiced.

d. *Minimum Age for Employment of Children.*—The Office of the Director General for the Protection of Minors in the Ministry of Justice and Labor is responsible for enforcing child labor laws. Minors between 15 and 18 years of age can be employed only with parental authorization and can not be employed under dangerous or unhealthy conditions. Children between 12 and 15 years of age may be employed only in family enterprises, apprenticeships, or in agriculture. Furthermore, the labor code prohibits work by children under 12 years of age. However, in practice many thousands of children, many younger than 12, work in the streets of Asuncion and its suburban communities selling newspapers, shining shoes, and cleaning car windows. In rural areas it is not unusual for children as young as ten to work beside their parents in the field.

e. *Acceptable Conditions of Work.*—The government has established a private sector minimum wage, regionally adjusted according to cost of living indices, sufficient to maintain a minimally adequate standard of living. The minimum salary was adjusted by 10 percent in July for the first time since December 1990, representing a loss of real purchasing power of 20.5 percent. Furthermore, it has been estimated that 50 to 70 percent of Paraguayan workers earn less than the decreed minimum. The previous labor code, since it was superseded by the 1992 Constitution, and the recent enactment of the new code, is no longer an accurate guideline for work conditions. However, according to both that code and the new labor code, maximum weekly hours are 48 for day work and 42 for night work, with one day of rest. The law provides for an annual bonus of one month's salary. The labor code also stipulates conditions of safety, hygiene, and comfort. In general, the government did not effec-

tively enforce the safety and hygiene provisions of the labor code, partially due to the lack of inspectors.

Labor unions: Paraguay has not developed a strong labor union movement. Union membership is not compulsory. Union representation exists at most places of work but, in general, is relatively weak except for the banking sector which has the strongest and most independent union organization in the country. It is not mandatory for unions and employees to enter into binding contracts or agreements. However, when 20 or more union workers are hired, the employer has to negotiate a collective agreement on working conditions, if and when requested by the union.

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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		7
Total Manufacturing		(1)
Food & Kindred Products	1	
Chemicals and Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		50

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

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

PERU

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1979 prices)	14,909	14,491	15,215
Real GDP Growth (pct.)	2.6	−2.8	5.0
GDP in current dollars	25,030	25,200	27,670
Real GDP (million 1979 new soles)	3,410.3	3,315.8	3,481.6
By Sector:			
Agriculture	430.2	405.9	428.2
Fisheries	33.5	31.8	39.4
Mining	371.7	354.6	379.4
Manufacturing	760.6	713.4	770.5
Construction	210.2	218.4	242.9
Government	262.0	271.9	272.7
Others	1,342.1	1,319.8	1,348.5
Per capita GDP (current U.S.$)	1,138	1,122	1,207
Labor Force (000's)	7,938	8,184	8,400
Unemployment Rate (pct.)	5.9	9.4	N/A

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Money and Prices (end-of-year):			
Money Supply (M1) (millions of new soles)[2]	945.4	1,618.6	1,874.9
Bank Lending Rate (pct.) (annual US$)[2]	21.98	17.39	16.58
Bank Saving Rate (pct.) (annual U.S.$)[2]	8.54	6.28	5.63
Consumer Prices (pct. change)	139.2	56.7	40.0
Wholesale Prices (pct. change)	96.0	50.5	40.0
Exchange Rate (official NS/$)	0.98	1.63	2.20
Exchange Rate (parallel NS/$)	0.98	1.63	2.20
Balance of Payments and Trade:			
Total Exports (FOB)	3,329	3,484	3,500
Total Exports to U.S. (C.V.)	779	739	750
Total Imports (FOB)	3,494	4,051	3,900
Total Imports from U.S. (FAS)	840	1,002	1,042
Aid from U.S	187.9	122.6	145.5
External Public Debt[3] [4]	20,735	21,333	21,552
Debt Service Paid[4] [5]	909	725	1,324
FOREX Reserves[2]	1,304	2,001	2,521
Balance of Payments	1,251	518	700

N/A—Not available.

[1] Estimated.

[2] As of September 30 for 1991 and 1992.

[3] Excludes interest due on arrears.

[4] As of June 30, for 1993.

[5] Includes U.S $867 million payment in World Bank arrears clearance, financed by U.S./Japan bridge loan.

Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor, U.S. Department of Commerce and U.S. Embassy estimates.

1. General Policy Framework

Opening the Peruvian economy to international trade remains a key part of President Alberto Fujimori's comprehensive economic stabilization and restructuring program begun following his inauguration on July 28, 1990. President Fujimori inherited a country in arrears to foreign lenders with no international reserves, and a heavily regulated, statist economy with distorted relative prices. The economy was in deep recession, with GDP down 23 percent over the 1988–90 period, while inflation was accelerating alarmingly.

In addition to trade liberalization, the Fujimori government has taken action to bring relative prices in line, liberalize investment and foreign exchange regimes, and reduce the size of the public sector. The goal of the structural adjustment program is to reduce inflation to manageable levels and create conditions for sustained economic growth. In March 1993, Peru cleared its arrears with the World Band (IBRD) and the International Monetary Fund (IMF) for about $1.8 billion.

The stress of structural adjustment, including austere monetary and fiscal policies contributed to a severe recession in 1992, exacerbated by drought and difficult fishing conditions created by the "El Nino" weather phenomenon. The diminution of El Nino brought about a recovery of the fishing industry and improvement in agricultural output in 1993. Combined with increased mining productivity and new foreign investment due to an improved investment climate and privatization, growth is resuscitating. This year, GDP is forecast to grow by five percent. Inflation was reduced to the lowest monthly level in 17 years in September, and should total about 40 percent for the year, down from 55 percent in 1990, 139 percent in 1991, and 7,650 percent in 1990.

Revenues and current expenditures have been in balance since late 1990. The combined fiscal deficit resulting from debt payment has been financed by external sources, including multilateral and bilateral donors. The Central Bank does not finance the fiscal deficit. The increase in tax revenues in 1993 fell short of expectations, although through reform and more rigorous collection efforts, the government has raised tax revenues from four percent of GDP in mid-1990 to a little over nine percent of GDP at present.

The government's ability to manage monetary aggregates has been limited by the increasing "dollarization" of the Peruvian economy. Without capital and exchange controls, dollars now account for over 70 percent of liquidity in the economy. The

Central Bank manages the money supply and affects interest and exchange rates through emission, open market operations, rediscounts, and reserve requirements on dollar and sol deposits. The Central Bank has limited net new emissions to well below the inflation rate this year to attempt to reduce it.

The new constitutional congress (CCD) was installed on December 30, 1992. Following an April 5, 1992 coup, President Fujimori dissolved the legislature, removed many judges and prosecutors appointed by the previous government, suspended portions of the 1979 Constitution, and began to rule by decree. As a result, economic assistance was suspended by the U.S. and some other donors. The elections for the new Constituent Congress held November 22, 1992 were judged fair by international observers. The new Constituent Congress, in which President Fujimori's supporters hold a strong majority, drafted a new constitution that was narrowly approved by popular referendum on October 31, 1993. Human rights concerns are a major factor in Peru's relations with the United States and other donor countries, and may limit assistance.

2. Exchange Rate Policy

The Fujimori government liberalized the exchange rate regime, eliminating multiple rates and other distortionary policies. The exchange rate is determined by market forces, with some intervention by the Central Bank to stabilize movements. The new constitution guarantees free access to and disposition of foreign currency. No restrictions exist on purchase, use, or remittance of foreign exchange. Exporters are not required to channel their foreign exchange transactions through the Central Bank; they may conduct their transactions freely on the open market.

3. Structural Policies

Dramatic market-oriented structural reforms are underway in Peru. The pace of these reforms slowed in 1993 as attention was temporarily diverted to constitutional reform, but continued in the same direction. Price controls and subsidies were eliminated, and regulatory regimes were streamlined in most sectors. For example, registration of a new company now takes about a month, as opposed to two years under the previous regime. 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 was introduced in December, 1992. While collections from income taxes have increased significantly, the government still relies primarily on value added and special consumption taxes. One reason it has done is their relative ease of collection. The government assesses a corporate income tax of a minimum of two percent of assets (one percent for financial institutions), which is highly controversial as companies must pay whether showing profits or losses. In the last few years, the government completely overhauled the inefficient and corrupt tax authority (SUNAT), and hired qualified, university-trained auditors, while raising salaries by a factor of ten to blunt corruption.

Privatization and liquidation of parastatals is underway. The process has been slow and uneven, due to the depressed state of the economy and the poor financial condition of many of the state-owned enterprises, requiring streamlining of productive processes and personnel in preparation for sale. The government has already sold the state airline, Aeroperu, as well as a major iron ore company, Hierro Peru. The government plans to sell two huge parastatal mining companies and the two state-owned telephone companies by the end of the first quarter of 1994. The government estimates that receipts from privatization will total $900 million in 1994.

The government actively seeks to attract both foreign and domestic investment in all sectors of the economy, to promote modernization and competition. American, Japanese, Chilean, Chinese, Korean, and Canadian investors have all made direct foreign investments in Peru. U.S. producers of a wide range of products, particularly capital goods, will benefit from this expansion of investment.

4. Debt Management Policies

The Fujimori administration initiated Peru's reinsertion into the international financial community in September 1991 by clearing arrears to the IDB, the negotiation of arrears clearance programs with the IMF and World Bank, and a Paris Club rescheduling agreement. The latter affected almost $6 billion of bilateral debt. Peru successfully completed its programs with the IMF and World Bank and cleared its total arrears of about $1.8 billion with those institutions in March 1993. Peru is now under an Extended Fund Facility with the IMF signed last March. The government also rescheduled the Paris Club debt again in May 1993, and obtained further relief in its debt payments, reducing them from $1.1 billion per year in 1993 to about $400 million in March, 1996.

The IMF forecast a need for support group assistance of $410 million to close Peru's external financing gap in 1993. Pledges, however, totalled only $265 million. The slowness of the privatization program and lower-than-expected disbursement of IDB and World Bank sectoral loans have aggravated the shortfall from the Support Group. On September 8, 1993, the government began discussions on rescheduling its debt with the commercial banks, estimated at more than $6 billion (including arrears). Peru's total foreign debt is about $22 billion. Debt service paid in 1992 was 21 percent of exports, and in 1993 will probably be somewhat higher (25–30 percent), not including payments made in the arrears clearing with the World Bank (which were made with bridge financing from the U.S. and Japan).

5. Significant Barriers to U.S. Exports

Through its structural reform program, the government has jettisoned almost all barriers to U.S. exports and direct investment. Import licenses are no longer required. No quantitative nor qualitative ceilings on imports exist. Eighty-seven percent of Peru's tariff positions now have a rate of 15 percent, with the remainder at 25 percent. The average tariff rate is 17 percent, down from 80 percent when President Fujimori took office. The government announced its intention to reduce tariffs further, eventually moving to a flat 15 percent rate for all products.

Surcharges imposed in May 1991 remain on 18 tariff categories of agricultural imports, covering five basic commodities: wheat, rice, corn, sugar, and milk products. The surcharges on wheat, rice, and sugar are variable imports levies, based on price bands determined weekly by the Ministry of Agriculture. Dairy products are subject to per ton surcharges which have not varied recently. The variable surcharges on corn and sorghum were converted to a 10 percent ad valorem surcharge in October, 1992. The government defends the surcharges as protecting Peruvian farmers from subsidized international competition, and cushioning the effect of an overvalued sol and structural adjustment. As a condition of disbursement of the Inter-American Development Bank Trade Sector Loan, the government agreed in July to phase out the surcharges over a three-year period. At present, it is difficult for U.S. grain exporters effectively to compete in the Peruvian market.

Peru has a less rigid and comprehensive regime of standards, testing, labeling, and certification than the United States. CERPER, the government agency responsible for product testing, is slated for privatization. Many exporters oppose this privatization, however, citing requirements by the European Community for government certification of health standards for agricultural and fisheries products. A protracted testing procedure overseen by the Ministry of Health was greatly streamlined. The government removed all restrictions on foreign provision of audiovisual services, advertising, tourism and insurance services. The government monopoly in the reinsurance industry was abolished.

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. Foreigners have the same access to local financing as Peruvian nationals. The government requires that less than 30 percent of total payroll goes to foreign employees, however, exceptions for technical and/or managerial personnel can be made. Any shareholder of the company, regardless of nationality, is not subject to this restriction.

To stimulate private investment, Peru offers foreign and national investors juridical stability agreements guaranteeing the application of current statutes on taxes, labor matters, environmental regulations, and other regulations for that investment for ten years. An investment must exceed $2 million to qualify 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 (SOE's)—the government has taken responsibility for prior debts of SOE's. The U.S. and Peru signed an OPIC agreement in December 1992. A bilateral investment treaty was under negotiation in February 1992, before Peru's "auto golpe".

The eight-year-old dispute between the government of Peru and the American Insurance Group (AIG) over the expropriation of Belco petroleum was finally settled on August 28, 1993. On September 28, the Peruvian government made the first payment of $30 million towards settlement of AIG's $184.7 million claim against the Peruvian government.

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 reg-

ulations. There is no statutory obligations to buy Peruvian goods or services. 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. For example, in 1992, Westinghouse won a $25 million contract to build a power generation plant.

The government has recently reformed Peru's Customs Service. The reform seems to be working—collection is up and produces over 30 percent of the total government revenues. Corrupt officials have been fired, and computerization is underway. The tariff system was simplified, also facilitating collection. Using funds from the IDB and the UNDP, the Fujimori administration has radically changed the atmosphere in their customs service. In the past, salaries were kept to a pittance because corruption was expected. As a consequence of more efficient collection, higher imports, and establishment of free trade zones with lower tariff levels in areas where contraband was prevalent, customs receipts increased from $625 million in 1990 to $1,282 million in 1992, despite lower tariff rates. Improved efficiency by customs increased collections by 7 percent of total imports despite a reduction in Peru's average tariffs.

6. Export Subsidies Policies

The Government of Peru provides no export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than available from Peruvian banks, although higher than rates available to U.S. companies. Exporters of non-traditional and mining products can apply certain sales and consumption taxes paid on inputs as a credit against income and asset taxes.

7. Protection of U.S. Intellectual Property

Intellectual property is still not adequately protected in Peru despite some progress. Legislation and enforcement of intellectual property rights (IPR) are weak, and Peru remains on the Special 301 "priority watch list." Peru is a signatory to various conventions for the protection of copyrights and trademarks and is a member of the World Intellectual Property Organization. Peru recently acceded to the Paris Convention for the Protection of Industrial Property.

Peru's protection of industrial property is governed by Decree Law No. 26017 (December 1992), which will be superseded by Andean Pact Decisions 344 and 345 on January 1, 1994. Peru's law lacks transitional (pipeline) protection and contains stringent compulsory licensing provisions and working requirements. Local pharmaceutical producers oppose any strengthening of Peru's law on Industrial Property.

Counterfeiting of trademarked property in Peru is prevalent. Registering a trademark is fairly straightforward. However, as a practical matter, local legal counsel must be obtained to register a trademark. A new independent government agency, the Institute for the Defense of Competition and the Protection of Intellectual Property Rights (INDECOPI) is working to enhance prospects of patent, trademark, and copyright rights. Jurisdictional problems between INDECOPI and the slow, disorganized Peruvian justice system have hampered efforts to enforce trademarks. Trademark owners have little security and unauthorized copies 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. INDECOPI is making an effort to ensure that all video outlets maintain at least 20 percent of their total stock in legitimate videos—since only 150 copyrighted titles are available legitimately, the government feels it cannot feasibly require that all videos that stores sell or rent be legitimate.

Although computer software is protected by Peruvian copyright law, pirated computer software also is widely available. Peruvian computer hardware merchants often load pirated software programs to secure sales. With the exception of video games, it appears most copyright piracy is locally generated and consumed. Even most government ministries and major Peruvian firms use pirated software. INDECOPI has begun a "legalization" program to bring owners of pirated computer software into legitimate ownership of these programs through discount pricing offered by software producers such as Word Perfect and Microsoft.

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 any longer.

The government is seeking to improve enforcement of copyright and industrial property (trademarks and patent) laws through INDECOPI. Creative judicial decisions, however, have found pirates innocent of trademark and copyright violations, in the rare instances where enforcement advanced beyond confiscation of the pirated merchandise.

The losses to U.S. business due to inadequate IPR protection are difficult to quantify. Excluding computer programs, the International Intellectual Property Alliance estimates U.S trade losses due to copyright piracy in Peru, at $30 million dollars. American companies have clearly suffered from the lack of pharmaceutical patents in Peru's estimated $250 million pharmaceutical market. This situation may improve with the beginning of the new patent regime in January 1994, under Decision 344.

8. Worker Rights

a. *The Right of Association.*—In the new constitution, the Fujimori government aims to promote job creation by eliminating many socialist/populist elements found in Peru's 1979 constitution. The 1993 constitution removes the concept of "labor stability" to give business owners more flexibility in hiring practices. The new constitution recognizes the right to organize a trade union, engage in collective negotiations, and strike. The state is to promote peaceful resolution of labor disputes. Membership or non-membership in a union cannot be required as a condition of employment, according to the new constitution. A small percentage (five percent) of the work force belongs to organized unions, and unions represent diverse political opinions. Although some unions have traditionally been associated with political groups, unions are now prohibited from engaging in explicitly political, religious, or profit-making activities. There are no restrictions on memberships in international bodies.

The relative infrequency of strikes in 1993, down perhaps 50 percent from 1992, has less to do with a pro- or anti-union attitude on government's part than the country's economic depression and workers' recognition that there are dozens of unemployed workers available for each job in the formal sector of the economy. Reprisals against striking workers are reportedly infrequent. Public employees exercising management or decision-making authority are excluded from the right to organize or strike, as are police and military.

b. *The Right to Organize and Bargain Collectively.*—Workers do not need prior authorization to form a trade union. Labor regulations promulgated prior to the new constitution provide that workers can form unions based upon profession, employment, or geographic location. Probationary, apprentice, or management employees are excluded from union membership, a fact some unions believe is abused to reduce union membership. Employers assert that labor stability provisions of the old 1979 law made long-term commitments to workers too expensive.

A minimum of 20 members is required to constitute a union in a company. The number of union officials and the amount of time they may devote to union business on company time is limited. The number of union representatives that can participate directly in collective bargaining negotiations is fixed (three to 12), as is the negotiating timetable. The management negotiating team cannot be larger than the workers' team. Both sides are permitted to have attorneys and experts as advisors. A strike must be approved by a majority of workers in a company, whether union members or not, in a secret ballot. A re-vote must be taken upon petition of 20 percent or more of the workers.

The government set up a system of conciliation and arbitration to resolve impasses in collective bargaining. Union officials have complained that their share of the cost of arbitration exceeds their resources.

Companies are permitted to propose changes of work schedules, conditions, wages, and suspend for 90 days collective bargaining agreements if required by force majeure or economic conditions, upon fifteen days' notice to employees. If workers dispute the changes, the labor ministry is to resolve the dispute based upon a criteria of "reasonableness" and "economic necessity." In such cases employers are to authorize vacation time and in general adopt measures that avoid aggravating the employment situation.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited, as is imprisonment for debt. Nonetheless, there are periodic reports of the practice of forced labor in remote mountainous Andean and Amazonian jungle regions of the country. In response to one complaint filed with the International Labor Organization (ILO), the Peruvian government this year acknowledged the existence of such practices but blamed the condition on a lack of collaboration by local authorities, employers, and a shortage of resources to enforce existing regulations.

d. *Minimum Age for Employment of Children.*—Workers between ages 16–21 are subject to special provisions in Peruvian labor law. Their apprenticeship cannot ex-

ceed 18 months, they must be paid at least the minimum wage, should be accorded specialized training, and can comprise no more than 15 percent of a company's work force. Given the reality of Peru's economic situation, children work in the informal economy without government supervision of wages or conditions from a very early age to help support their families.

e. *Acceptable Conditions of Work.*—Workers are promised a "just and sufficient" wage to be determined by the government in consultation with labor and business representatives and "adequate protection against arbitrary dismissal." The constitution also provides for a 48-hour work week, a weekly day of rest, and yearly vacation. Discrimination in the work place is prohibited. The country's minimum wage is fixed by the government in consultation with labor and business representatives. The current minimum wage is 72 soles per month (approximately $34 at a 2.12 soles per dollar exchange rate). It is generally considered to be inadequate to provide for minimal living conditions. While occupational health and safety standards exist, the government lacks the resources to monitor compliance. Compensation for industrial accidents generally is worked out individually between the worker and owners. Reforms eliminating the need to prove culpability to obtain workman's compensation for injuries have been introduced.

f. *Rights in Sectors With U.S. Investment.*—Labor laws and regulations are formulated by the Peruvian 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		18
Food & Kindred Products	3	
Chemicals and Allied Products	1	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	7	
Wholesale Trade		59
Banking		(1)
Finance and Insurance		0
Services		9
Other Industries		306
TOTAL ALL INDUSTRIES		466

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

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

TRINIDAD AND TOBAGO

Key Economic Indicators

[Millions of TT dollars unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP (1985 market prices)	16,530.6	16,267.5	16,106.5
Real GDP Growth (pct.)	2.5	−0.3	−0.9
GDP (current market prices)	21,429.2	22,222.3	24,282.0
GDP (current prices) by sector:			
Petroleum products	5,691.6	4,860.2	5,585.5
Agriculture	558.2	563.8	584.1

Key Economic Indicators—Continued

[Millions of TT dollars unless otherwise noted]

	1991	1992	1993[1]
Electricity and Water	258.4	357.9	463.5
Manufacturing	1,992.3	2,057.6	2,100.2
Construction	1,851.5	1,915.5	1,857.3
Transport, Storage and Communications	1,980.5	2,007.6	2,123.3
Financial Services	2,525.8	2,765.7	3,180.6
Other Services	1,454.6	1,516.2	5,437.8
Government	2,372.6	2,636.4	2,751.3
Real Per Capita GDP (TT$)	13,359.1	12,991.1	12,780.9
Labor Force (000's)	492.4	505.2	497.0
Unemployment Rate (pct.)	18.9	19.6	19.5
Money and Prices:			
Money Supply (M2)	9,656.6	9,017.7	9,276.0
Base Interest Rate (pct.)	12.9	15.5	15.5
Retail Inflation (pct.)	3.8	6.5	11.0
Wholesale Inflation (pct.)	0.2	0.8	1.8
Consumer Price Index	232.0	247.0	273.0
Exchange Rate (TT$ per U.S.$)[2]	4.25	4.25	5.60
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)[3]	1,985.0	1,867.1	1,400.0
Exports to U.S	965.3	879.0	650.0
Total Imports (CIF)	1,667.0	1,435.6	1,360.0
Imports from U.S	647.9	594.4	475.0
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (year-end)	2,432.5	2,216.0	1,962.0
Annual Debt Service Paid[4]	461.0	612.1	634.0
Gold and Foreign Exchange Reserves (net, year-end)[5]	−30.4	−67.8	29.3
Trade Balance	318.0	431.6	40.0
Balance with U.S	317.1	284.6	175.0

[1] TT Government estimates, based mostly on third quarter data.
[2] Effective April 13, 1993 the government floated the TT dollar. The TT$/U.S$ rate has subsequently remained fairly stable at about TT$5.6 per U.S.$1.00.
[3] 1993 Import/export data are based on January–June figures.
[4] Principal and interest.
[5] As of September 30, 1993.

1. General Policy Framework

The dual-island parliamentary Republic of Trinidad and Tobago is endowed with rich deposits of oil and natural gas. During the oil boom of the 1970's, Trinidad and Tobago became one of the most prosperous countries in the Western Hemisphere. Oil revenues enabled the nation to invest in state-owned and state-controlled corporations, which are a major drain on the nation's resources. The oil wealth also fueled a dramatic increase in domestic consumption. The collapse of the oil boom in the 1980s, and concurrent decrease in Trinidadian oil production, caused a severe decline in Trinidad and Tobago's economy, which is still being felt.

Since January 1992, the Government of Trinidad and Tobago has moved decisively to lay the foundations for private-sector based, export-led growth. In July 1992 the government dismantled most remaining non-agricultural trade barriers, and, effective April 13, 1993, it removed currency controls, floating the TT dollar. The government has aggressively courted foreign investors, attracting over US$1 billion thus far in 1993. In the short term, however, before the stimulus from the new investment is felt, Trinidad and Tobago's prospects for economic growth remain closely tied to oil prices.

High debt-service payments have forced the GOTT to pursue a tight monetary policy. The resultant high interest rates have hampered local investment. Official unemployment figures, which reflect only those who are actively seeking work, have dropped below 20 percent, but the number of labor-force dropouts and, thus, the

total number of unemployed persons, continues to rise as state-owned enterprises and some private-sector manufacturers retrench workers.

Trinidad and Tobago is highly import-dependent. Products imported cover a broad range of consumer and industrial goods from its major supplier, the United States, and other developed countries. Trinidad and Tobago's exports, however, are traditionally highly concentrated in 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). The April 1993 float (and resultant depreciation) of the TT dollar has made local manufactured and agricultural exports more competitive. The removal of import-licensing restrictions has also forced local manufacturers, traditionally accustomed to producing only for a protected domestic market, to look outward and become more efficient.

The Government of Trinidad and Tobago uses a standard array of fiscal and monetary policies to influence the economy, including a 15-percent value-added tax (VAT) and relatively high corporate and personal income taxes. Improvements in revenue collection in 1993 have boosted VAT, income-tax and customs-duty revenues dramatically. As a result, the government expects to end fiscal year 1993 with a slight budget surplus, despite lower petroleum-tax revenues. The government projects a surplus of one percent of GDP in 1994.

The April 1993 flotation of the TT dollar has made the conduct of monetary policy in Trinidad and Tobago more complex. To ensure a stable exchange rate, the Central Bank feels it must manage liquidity by keeping aggregate demand consistent with balances. Accordingly, the Central Bank, which traditionally has relied primarily on reserve requirements to control the money supply, now plans to use more open-market operations, initially through the Treasury Bill market. Low inflation and a stable exchange rate since the float attest to the success of the government's tight monetary policy. The approximately 35-percent depreciation of the TT dollar in April led to a 15-percent increase in fuel prices in July, boosting 1993 inflation figures to an estimated 11 percent. In general, however, the underlying inflation rate has remained low.

2. Exchange Rate Policies

Effective April 13, 1993 the Government of Trinidad and Tobago removed exchange controls and floated the TT dollar, which had been pegged to the U.S. dollar (the currency of its major trading partner) at the rate of TT$4.25/US$1.00 since 1988. Since announcement of the float, the TT dollar has traded in a relatively narrow band, selling at around TT$5.60/US$1.00 and buying at TT$5.77/US$1.00.

Initially the commercial banks administered exchange controls similar to those formerly imposed by the Central Bank, but, influenced by competitive forces, those informal controls are gradually and quietly being lifted. Foreign currency for imports of both visible and invisible goods, as well as for profit remittances and repatriation of capital, is now freely available. Only a few reporting requirements have been retained to deter money laundering and tax evasion.

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. In some circumstances, the controls could 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 eventually to be eliminated entirely. A "Negative List" prohibits the importation of certain agricultural products without a license. Until July 1992, the Negative List also covered a number of manufactured and processed-food products. Items formerly on the list are now subject to tariff surcharges, which were reduced on January 1, 1993, will be further reduced in 1994 and eliminated in 1995.

Tax Policies: In a major effort to curb consumption, the government instituted a 15-percent value-added tax on January 1, 1990. Corporate tax rates were raised by 5 percentage points, to 45 percent, in 1992. The higher rate, intended to be temporary, was maintained in the 1993 budget. The government's 1993 budget included substantial tax breaks for construction activity in 1993 and 1994, as well as for export-oriented venture-capital companies. The petroleum tax regime was revised in 1992 to index tax rates to oil prices, and make Trinidad and Tobago a more competitive location for investment. A tax of 0.25 percent was 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. Firearms, ammunition and narcotics are rigidly controlled or prohibited.

4. Debt Management Policies

Its foreign exchange reserves depleted, the government was compelled to negotiate two IMF standby agreements for a total of US$350 million between December 1988 and March 1991. Official debt was also rescheduled in the Paris Club, and an agreement concluded for a US$40 million structural-adjustment loan from the World Bank. As a result, Trinidad and Tobago's debt-service payments in 1992, 1993 and 1994 average over US$600 million per annum.

While the government has met every IMF target, it has avoided a return to the IMF for further balance-of-payments support. Instead, it has relied on bond issues, proceeds from the divestiture of state enterprises and the offset effects of substantial loans from the Inter-American Development Bank (IDB) to cover its 1992 and 1993 payments. The government will continue these policies in 1994. Trinidad and Tobago should emerge in 1995 with a manageable debt burden of approximately US$400 million per annum, and, as of 1996, a debt-service ratio below 15 percent.

Total foreign debt now stands at slightly less than US$2 billion, or 42 percent of GDP, down from a high of 59 percent in 1989. While austerity measures now in place reduce the government's 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 poultry and meat products, liquid milk, fish, wheat flour, rice, some vegetables, most fresh 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 tons. With advance notice, licenses are easily obtained for the import of many of these products, particularly beef and temperate-climate fruits.

Discriminatory tariffs: Imports are subject to the Caricom common external tariff (CET). The CET range now stands at 5 to 35 percent of CIF value, reduced on January 1, 1993 from the previous range of 5 to 45 percent. Further reductions will be made in yearly stages to 5 to 20 percent by January 1, 1998. In addition, Trinidad and Tobago levies a 20-percent stamp tax on the CIF value of imports and 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 25 percent. The top surcharge will, however, be lowered to 15 percent on January 1, 1994 and to zero on January 1, 1995 when the stamp tax will also be eliminated.

Services Barriers: Most services are subject to the investment criteria outlined in the investment section below. Foreign ownership of service companies is permitted, however. 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: The "Caricom and Foreign Investment Bill of 1990" extends national treatment to Caricom citizens, but not to other foreigners. Unless the government specifically grants a waiver, 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. In February 1993, however, the government eliminated the requirement for work permits for foreign personnel working in Trinidad and Tobago for less than 30 days. Further reductions of investment and employment barriers are expected as the government seeks 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 generally fair. The government and government-owned companies generally adhere to an open bidding process for procurement of products and services. U.S. firms often win these bids. 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. In October 1993 the government engaged three full-time U.S. Customs

Service consultants for two years to improve efficiency and revenue collection and to eliminate opportunities for corruption.

6. Export Subsidies Policies

There is no evidence of subsidized Trinidad and Tobago exports to the United States. The government is not a party to the GATT Subsidies Code.

Effective January 1, 1993, the government implemented the five-percent CET on all factors of production. Most such products had traditionally been allowed to enter the country duty free. Manufacturers that export, however, may reclaim the duty on the re-export of an imported product or receive vouchers, equal in value to the tariffs paid, that can be applied against duties owed on further imports.

7. Protection of U.S. Intellectual Property

Trinidad and Tobago devotes few resources to enforcement of intellectual property rights. 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; the Universal Copyright Convention, Revised; and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication. Trinidad and Tobago is also a party to the Bern 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 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 TT 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 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 discernible 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, though diminishing, practice among the sector of the population that can afford such equipment. 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. While larger firms are scrupulous about obtaining their software legally, many smaller firms are believed to use wholly or partially pirated software.

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 relatively small. A large percentage of households own video cassette players; relatively few, however, have access to personal computers.

8. Worker Rights

a. *The Right of Association.*—The right of association is respected in law and in practice. An estimated 24 percent of the work force is organized into 45 labor unions. The unions are independent of government or political party control 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. Strikes and lockouts are not permitted in essential public services, and the Minister of Labor may apply for an injunction to halt any labor action he finds contrary to the national interest. They may also file civil suits against the government. Under Trini-

dad and Tobago law, no union may represent more than one essential public service to avoid strikes of several essential services at one time.

b. *The 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.

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. Education is compulsory until the age of 12, but 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. Other sectors are not currently protected by minimum wage laws; however, most wages are covered under collective bargaining agreements 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		89
Food & Kindred Products	7	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance and Insurance		18
Services		1
Other Industries		(1)
TOTAL ALL INDUSTRIES		575

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

URUGUAY

Key Economic Indicators

[Millions of Uruguayan pesos unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1983 prices)[2]	217.4	233.5	238.2
Real GDP growth (pct.)	2.9	7.4	2.0
GDP (at current prices)[2]	19,793.0	34,523.2	54,229.0
By sector:			
Agriculture	2,003.3	3,637.4	5,600.0
Energy and water	432.3	785.2	1,100.0
Manufacturing	4,918.7	7,493.7	10,500.0
Construction	770.1	1,570.1	2,700.0
Rents	2,480.1	4,910.3	6,800.0
Financial Services	2,191.4	3,583.3	5,000.0
Other Services	5,842.0	10.472.4	16,800.0
Government, Health and Education	2,004.0	3,379.3	5,300.0
Net Exports of Goods and Services	597.0	71.5	−400.0
Real Per Capita GDP (1983 prices)	69.8	74.6	75.6
Labor Force (000's)	1,369	1,382	1,395
Unemployment Rate (percent)	8.5	9.0	8.8
Money and Prices (annual percent growth unless noted):			
Money Supply (M2)	86.8	54.5	26.0
Base Interest Rate[3]	73.6	50.1	44.5
Personal Saving Rate[3]	30.0	24.5	23.9
Consumer Price Index	81.4	58.4	50.0
Wholesale Inflation	68.6	46.9	27.0
Exchange Rate (New Peso/$) (Inter-bank Selling Rate)	56.1	39.9	26.8
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB)[4]	1,604.7	1,702.5	1,600.0
Exports to U.S	162.8	177.8	180.0
Total Imports (CIF)[4]	1,636.4	2,045.1	2,000.0
Imports from U.S	196.7	218.7	230.0
Aid from U.S	10.9	1.2	1.2
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	4,141.0	4,136.0	4,200.0
Debt Service Payments (paid)	813.0	620.0	630.0
Gold and FOREX Reserves (net)	826.5	946.8	1,100.0
Trade Balance[4]	−31.8	−342.6	−400.0
Balance with U.S	−33.9	−40.9	−50.0

N/A—Not available.

[1] 1993 Figures are all estimates based on available monthly data in October 1993.
[2] GDP at producer prices.
[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 agro-industry into chemicals and consumer goods for local consumption. Services have assumed greater importance recently, particularly tourism and financial services, the latter of 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 0.9 percent in 1992. Principal sources of the deficit are losses by the Central Bank on non-performing loans purchased from private

banks, foreign debt payments and transfers to the social security system. Inflation peaked at 129 percent in 1990, and is expected to fall to 50 percent in 1993.

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. The progress of reform, however, has been slow.

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. However, the lack of instruments to neutralize capital inflows makes control of the money supply difficult.

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. The Government of Uruguay is now negotiating an enhanced surveillance agreement with the IMF for the 1994 yearly program.

2. Exchange Rate Policy

The Uruguayan Government allows the peso to float freely against the dollar within a declining 7 percent band. The band currently declines by 2 percent per month. In 1993, the Central Bank regularly bought dollars to keep the peso value from rising above the band. In 1993 devaluation has lagged about 21 percentage points behind inflation, hurting Uruguayan exports but improving prospects for U.S. exports.

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for any transaction and much of the economy is dollarized.

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 24 percent to 20 percent in January 1 1993. This has a positive effect on U.S. exports. Tariffs for products from Mercosur countries will reach zero on January 1, 1995. There are no plans for further reductions of tariffs on products from third countries at this time.

4. Debt Management Policies

Uruguay is a heavily-indebted middle-income country. As of March 1993, its total external debt was $7.5 billion, almost $400 million over the amount in March 1992. Of this amount, $4.1 billion was public sector debt and $3.4 billion represented debts of the private sector. The public sector external debt included $1.4 billion of dollar-denominated Uruguayan Government bills and bonds, $288 million of foreign currency deposits of nonresidents, $1.4 billion of long term loans of the non-financial public sector and $111 million of suppliers credits. The balance, amounting to $362 million, represents liabilities, reserves and other credits of the Government of Uruguay financial sector. International reserves of the banking system amounted to $2.4 billion.

The $3.4 billion of the private sector foreign debt were primarily made up of $2.1 billion of foreign currency deposits by nonresidents and $331 million of supplier credits. The balance amounting to $1.0 billion represented liability reserves of the private banks. International reserves of the private sector banks amounted to $3.0 billion resulting in a net private sector foreign debt of $364 million.

The debt service in 1992 was $747 million, equivalent to 29.1 percent of combined merchandise and service exports (or 6.5 percent of GDP).

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.

Few significant restrictions exist in services. U.S. banks continue to be very active in off-shore banking. There are no significant restrictions on professional services such as law, medicine or accounting. Similarly, travel and ticketing services are unrestricted. A new civil aviation agreement has provided equal treatment for foreign carriers. A law allowing foreign companies to offer insurance coverage in Uruguay was passed in October, 1993, and will be implemented within 12 months.

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 and allows others to grant concessions to or enter service contracts with private businesses. However, key provisions of this law were defeated in a popular referendum on December 13, 1992, which principally halted the partial privatization of the telecommunications company. 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 ten percent higher. Uruguay is not a signatory to the GATT Government Procurement Code.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between 0 and 20 percent. The only exemptions to tariff regulations, in the context of anti-dumping legislation, are reference prices and minimum export prices, fixed in relation to international levels and in line with commitments assumed under 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 nine percent subsidy to wool fabric and apparel using funds from a tax on greasy and washed wool exports. This subsidy will be 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, due in part to the fact that little of the domestic industry relies on intellectual property protection. Uruguay has been generally supportive of efforts to strengthen the rules governing intellectual property protection in international fora such as the World Intellectual Property Organization (WIPO) and the Uruguay Round of GATT.

The Government does not discriminate between foreign and domestic patent holders. Owners and assignees of foreign patents may obtain confirmation of patents in Uruguay, provided application is made within three years of registration in country of origin. Confirmed patents are protected for ten years, less the period of protection already enjoyed in the country of origin. Compulsory licensing is not practiced. 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 pharmaceuticals 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 ten 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 estimated that losses due to pirating could amount to $10 million. There is also considerable pirating of videotapes and 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. A new copyright law is under consideration.

8. Worker Rights

a. *The Right of Association.*—The Constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. *The 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 and there is no evidence of its existence.

d. *Minimum Age for Employment of Children.*—Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work.*—There is a legislated minimum wage. The standard work week is 48 hours for six days, with overtime compensation for work in excess of 48 hours. Workers are protected by health and safety standards, which appear to be adhered to in practice.

f. *Rights in Sectors With U.S. Investment.*—Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	59	
Chemicals and Allied Products	−1	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		79
Banking		81
Finance and Insurance		(1)
Services		2
Other Industries		0
TOTAL ALL INDUSTRIES		259

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

VENEZUELA

Key Economic Indicators

[Billions of bolivars (Bs) unless otherwise noted]

	1991	1992 [1]	1993 [2]
Income, Production, and Employment:			
GDP	3,037.5	4,132.3	5,702.6
Real GDP Growth (pct.)	9.7	6.8	1.0
GDP by sector:			
Manufacturing	503.4	677.6	940.0
Agriculture	151.1	197.5	265.0
Real Per Capita Income (Bs)	26,526	27,687	27,284
Labor Force (000's)	7,400	7,500	7,700
Unemployment Rate	8.7	7.6	8.2

Key Economic Indicators—Continued

[Billions of bolivars (Bs) unless otherwise noted]

	1991	1992[1]	1993[2]
Money and Prices:			
M1 (Dec. 31) (Bs billion)	365.7	396.0	475.0
Commerc. Lending Rate (pct. avg.)	37.7	42.1	57.9
Savings Rate (Percent of GDP)	14.8	10.3	9.2
Investment Rate (Percent of GDP)	15.4	18.1	17.0
CPI (1984=100)	717.7	943.3	1,294.2
WPI (1984=100)	718.9	888.3	1,209.9
Market Exchange Rate (Bs/$ at Dec. 31)	61.7	79.6	107.0
Balance of Payments and Trade (millions of U.S. dollars):			
Total exports (FOB)	14,968	13,955	14,100
Total exports to U.S. (C.V.)	8,177	8,168	9,000
Total imports (FOB)	10,131	12,266	12,150
Total imports from U.S. (FAS)	4,596	5,438	5,600
Aid from U.S	0	0	0
Aid from other countries	N/A	N/A	N/A
External public debt	26,517	27,105	28,500
Annual debt service payments	3,023	2,267	3,200
Gold and FOREX reserves	14,105	13,100	11,900
Balance of payments	3,183	−1,139	−1,500

N/A—Not available.

[1] Preliminary figures as of 10/27/93.

[2] Embassy forecasts.

1. General Policy Framework

Venezuela, a multi-party electoral democracy with a bicameral legislature, is a major oil producer/exporter and a founding member of OPEC. As a result of 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 macroeconomic model and economic policies to diversify from dependence on petroleum exports (though the petroleum sector still dominates the economy) and to develop non-traditional basic export industries, such as petrochemicals, aluminum, steel, cement, forestry, 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 59 percent of Venezuelan exports and 44 percent of its imports in 1992.

Venezuela had rapid economic growth in 1991 and 1992 after tough austerity measures were implemented in 1989 and 1990. Real GDP grew 6.8 percent in 1992, principally driven by a 8.6 percent increase in the non-petroleum sector, and is expected to expand by one percent in 1993. The government recorded a fiscal deficit of about six percent of GDP for the consolidated public sector in 1992 and is expected to remain about the same in 1993.

Monetary policy continues to reflect the fundamental objectives fixed by the government at the beginning of 1989, which are to reduce inflation, maintain positive interest rates, and ensure a competitive exchange rate. In 1993, the Central Bank began an aggressive program to control liquidity. For the first six months of the year, M2 grew by 8.4 percent, versus 18.4 percent in 1992. Liquidity expansion was reduced in 1993 due to a more aggressive Central Bank program which increased sales of short-term bills (zero coupon bonds). For the first six months of the year, M2 grew by 8.4 percent.

Prices increased 32 percent in 1992, only slightly higher than the 31 percent recorded in 1991. However, during 1993, there has been a sharper upward trend; inflation is estimated to reach 41 percent for the entire year.

The Caracas Stock Exchange recorded substantial gains in 1990 and 1991; the broad market index climbed by 64 percent in 1991. It fell by 32 percent during 1992. In 1993, the index has demonstrated volatility but has shown little recovery since

year end 1992. Several private sector firms trade their shares as American Depositary Shares in several markets.

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 1992, the bolivar fell by 20.0 percent against the dollar to close the year at 79.6 bolivars to the dollar. During the January–September 1993 period, the bolivar depreciated 23 percent and closed at Bs 98.0/$ 1.0. (Inflation was 29.3 percent over the same period.)

The Central Bank's international reserves increased substantially during the first three years of the economic adjustment program. They climbed from $7.5 billion at the end of 1989 to $14.1 billion at the end of 1991. However, for 1992, a decrease of $1.1 billion was registered, and the year end total was about $11.9 billion. With the advent of exchange unification, prior exchange authorizations and preshipment 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 only on public transportation and basic pharmaceutical products. Government producer subsidies have also been eliminated.

A major income tax reform, designed to lower tax rates and ultimately increase revenues by reducing widespread tax evasion, entered into force on September 1, 1991. The maximum tax rate for individuals and corporations fell to 30 percent. After more than three years of discussion by Congress, a value-added tax was finally approved, entering into force on October 1, 1993, at the wholesale and import level and extending through the retail level on January 1, 1994. With this step, Venezuela has embarked on a process to reform its tax system. 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 which is currently set at 16 percent but will be gradually reduced to zero by 1996.

Foreign corporations operating in Venezuela receive tax treatment as Venezuelan firms. Venezuelan export-oriented firms receive preferential tax credits and credit access; producers and purchasers of locally-produced capital goods receive investment tax credits. 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 ten percent tax on hotel rooms and lodging.

The Venezuelan tariff schedule has been substantially liberalized, and quantitative restrictions have been almost completely removed (prohibitions remain on used cars, used clothing and used tires). 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. Sensitive agricultural products (milk, meat, rice, wheat, feedgrains, oilseeds, and sugar) are subject to a price band system which imposes 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 import of these products pose a particular threat. Customs duty collections have increased as a result of tariff exemptions and exonerations. Venezuela acceded to the General Agreement on Trade and Tariffs (GATT) on September 1, 1990.

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 deal reduced principal by $2 billion, cut interest payments by approximately $470 million per year, raised $ 1.2 billion in new money, and obtained more favorable repayment terms for the remaining debt.

As of December 1992, Venezuela's public sector external debt totaled $28.5 billion, or almost 55 percent of GDP. In 1992, Venezuela's debt service payments totaled $2.3 billion or 16.2 percent of total exports.

The government finished the third year of a three-year Extended Fund Facility with the International Monetary Fund. The World Bank and Inter-American Development Bank are providing multi-year sectoral loans to assist the economic restructuring process.

5. Significant Barriers to U.S. Exports

Import License Requirements: 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. The Nota 6 requirement is used aggressively by the Ministry of Agriculture, in effect banning U.S. poultry and pork imports.

Service Barriers: Foreign equity investment in 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. New banking legislation, which is expected to enter into force on January 1, 1994, would allow foreign financial institutions to open branches, establish fully owned banks, and acquire shares of existing institutions. Separate legislation which would allow foreign participation in the insurance/reinsurance sector remains pending before the Congress.

Standards, Testing, Labeling and Certification: The new Consumer Protection Law, which went in to effect in May 1992, contains provisions regulating labeling. 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 grants national treatment to foreign investment and 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 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 ten 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 ten 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 one million and ten million bolivars, for construction works estimated to cost between ten and 30 million bolivars, and where the national registry certifies that there are no more than ten 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 one 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 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 ten percent of free-on-board value is available.

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.) 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 two 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 five percent for all other exported items. The United States has consulted with the Government of Venezuela concerning export subsidies that may be inconsistent with GATT.

7. Protection of U.S. Intellectual Property

Venezuela is a member of the World Industrial Property Organization (WIPO) and is a signatory to the Bern 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 Convention on Intellectual Property Rights protection as well as the Patent Cooperation Treaty (PCT).

Venezuela was placed on the U.S. Trade Representative's "Watch List" as a result of an assessment required by Section 301 of the 1988 Omnibus Trade and Competitiveness Act.

While Venezuela's intellectual property rights (IPR) regime has traditionally tended to protect national industries and firms, recent changes are taking place which may benefit U.S. and other foreign firms by improving IPR protection. On October 1, 1993, a new copyright law entered into force which strengthens copyright protection, including software protection and enhanced sanctions. The Andean Pact recently passed decision 344 on patents and trademarks and 345 on plant varieties. The United States began negotiations with Venezuela toward a bilateral IPR agreement in October 1992.

Patents: Under Venezuela's national law, a patent must be worked within two years or it expires. Working a patent requires domestic production of the patented

product and importation does not satisfy the working requirement. Few patents have been enforced under the present law.

Trademarks: Trademark protection is based upon registration and use; the first person to register a mark obtains the rights to it. Current Venezuelan law specifically limits protection to the classes in which the trademark is registered. No protection against unfair competition exists; and trademark piracy is common in the clothing, toy, and sporting goods areas.

Copyright: Venezuela's new copyright law protects all inventive works, including computer software. Computer software and videotape piracy are still common.

The International Intellectual Property Alliance (IIPA) estimated that total losses in 1992 due to inadequate copyright protection in Venezuela was approximately $82 million. This figure includes losses in the areas of motion pictures, videotapes, computer software and sound recordings. It does not include losses due to patent and trademark counterfeiting and piracy.

8. Worker Rights

a. *The Right of Association.*—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. *The 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 wages may be raised by administrative decree provided 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 ($90 monthly) and a national rural minimum wage rate ($60 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, ten 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 work places must maintain "sufficient protection for health and life against sicknesses and accidents," and it imposed fines 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 there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		179
Total Manufacturing		1,069
Food & Kindred Products	163	
Chemicals and Allied Products	252	
Metals, Primary & Fabricated	45	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	38	
Transportation Equipment	288	
Other Manufacturing	(1)	
Wholesale Trade		175
Banking		(1)
Finance and Insurance		111
Services		30
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,725

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

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

NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

[Billions of Algerian dinars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP	793.2	987.0	1,149.0
GDP by Sector (at current prices):			
Petroleum	234.0	255.2	259.9
Agriculture	85.9	118.8	147.0
Energy and Water	8.5	7.1	N/A
Industry	76.0	99.4	120.3
Construction & Public Works	95.5	131.6	166.0
Other Services	131.6	176.7	210.9
Labor Force (millions)	6.0	6.2	6.4
Unemployment Rate (pct.) (official estimate)	20.2	21.9	22.0
Money and Prices (annual pct. growth unless noted):			
Money Supply (M2, bil. dinars)	416.6	524.6	655.2
Commercial Interest Rates	15.0	17.0	20.0
Personal Saving Rate (pct. of GDP)	35	N/A	N/A
Consumer Price Index	22.8	32.2	22.0
Exchange Rate (dinar/$):			
Official	18.47	21.82	23.10
Parallel (est.)	27.0	45.0	60.0
Balance of Payments and Trade (million U.S. dollars):			
Total Exports (FOB)[2]	12,443	11,510	11,400
Exports to U.S. (CIF)	2,099	1,588	N/A
Total Imports (FOB)[2]	9,156	9,283	9,000
Imports from U.S	727	676	N/A
Aid from U.S	357	375	150
Foreign Debt	27,050	26.640	N/A
Debt Service Payments	9,550	9,360	9,110
Gold and FOREX Reserves	1,510	1,510	2,000
Trade Balance[2]	3,287	2,229	2,400
Balance with U.S	1,372	912	N/A

N/A—Not available.

[1] 1993 Figures are estimates based on available monthly data in October 1993.

[2] Merchandise trade.

1. General Policy Framework

Algeria has great long-term potential as a market for U.S. business. It boasts a population of 26 million people. Its products enjoy preferential access into the European Community market as well as into other Maghreb countries. However, the transition from statist economy, necessary for realizing its full potential, has not yet been completed. Economic performance has been sluggish since the mid-1980's with marginally positive or negative real growth rates registered each year.

One bright spot among public sector enterprises is the state-owned petroleum industry. The hydrocarbon sector provides 97 percent of export earnings and 65 percent of government revenues. The oil price slump in 1986 drastically reduced Algeria's hard currency earnings, from $13 billion in 1985 to $8 billion in 1986, and forced the government to curtail imports. Low oil prices will continue to aggravate Algeria's balance of payments situation. 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.

The oil price slump of 1986 provided further impetus to economic reform efforts. However, in attempting to move from a centrally controlled economy to a market-based economy, the government has experienced serious social problems. Chief among these are annual unemployment and inflation rates exceeding 20 percent, and a severe housing shortage. These factors have slowed progress toward market reforms.

In August 1993 Redha Malek was named as the country's new prime minister, replacing Belaid Abdesselam. During Abdesselam's tenure from July 1992 to August 1993, new controls were placed on imports, foreign exchange, and wages. Saddled with an annual debt service burden that consumed 75 percent of foreign exchange earnings, the Abdesselam government opted to choose a path of austerity rather than seek a debt rescheduling which would have required the government first to reach agreement with the IMF on an economic reform program. The government instituted a ban on luxury imports. The government also created an "Ad Hoc Committee" of senior Ministers to ration lines of credit to those companies deemed to be operating in the public good. Results were highly favorable to public enterprises. At the same time, a record budget deficit was forecast by the government, in large part due to budgetary outlays for support of inefficient public sector enterprises. New Prime Minister Malek has pledged to make progress toward a market economy but has not yet articulated what specific economic course the government intends to follow.

As part of its effort to diversify the economy, the government has instituted several new policies to encourage foreign investment and trade in recent years. Chief among these is a new investment code (discussed under Part 3). In addition, legislation enacted in December 1991 allowed foreign firms to take up to a 49 percent share of production in existing oil fields and participate in natural gas exploration for the first time. The new law also established and set in place new incentives to encourage exploration. As a result of these new incentives, several U.S. companies have signed exploration and production sharing agreements. Other positive steps included the introduction in April 1992 both of a new and simplified tax code and a new customs tariff schedule which simplified and reduced tariffs (see also Part 3 below.)

2. Exchange Rate Policy

The dinar is a nonconvertible currency. The central bank states that its value is set against an undisclosed basket of foreign currencies. Since 1990 the central bank has allowed the official rate to slide approximately 158 percent against the dollar in nominal terms. There was a major devaluation of 22 percent in September of 1991. The pace of devaluation has slowed considerably since then because of government concerns about the inflationary impact of devaluation. Despite the progress made since 1987, the official exchange rate remains valued at almost one-third the non-officially determined parallel rate. 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 Abdesselam government announced in September 1992 its intention to introduce a dual exchange rate system in 1993. The system would have an official rate for priority imports and a floating rate closer to the existing parallel rate for other imports. The Malek government has not yet indicated whether it will pursue this course or choose some alternative means of devaluing the dinar.

3. Structural Policies

The Algerian government approved a new investment code in October 1993 which for the first time does not distinguish between investments made by foreigners and investments made by Algerians from funds held both locally and abroad. The code provides new investors a three-year exemption from the value added tax on goods and services acquired locally or imported, and a two- to five-year exemption from corporate taxes. In addition, the duty on imported goods has been reduced to three percent, and a ceiling of seven percent is to be placed on an employer's contributions to local social security. Exemption is also allowed from duties and taxes for goods

purchased locally from customs depots. Finally, the government will establish a new agency to receive and coordinate all investment applications and thereby streamline the process for obtaining government approval of new investments.

The government enacted regulations in February and April of 1991 that abolished the monopoly rights formerly held by state corporations to import virtually all products. 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 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 Algerian government also 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, taxes on imports were also substantially changed. In addition to paying the tariff, importers must pay two other taxes: a value-added tax, which ranges from seven to 40 percent, and, in some cases, a compensatory tax, which ranges from ten to 50 percent.

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 (see also Part 4 below). The Algerian government is not promoting counter-trade, particularly that which involves hydrocarbon exports.

The government has just issued a new decree reducing income taxes paid by foreign technical and supervisory personnel to a flat rate of 20 percent, down from the previous 70 percent. The new rate applies to personnel employed by foreign companies working in most of Algeria's industrial sectors whose salaries exceed 80,000 Algerian dinars per month ($1 = 23.56 dinars). It does not apply to foreign personnel employed by liaison offices and joint ventures established in Algeria.

4. Debt Management Policies

Approximately 75 percent of Algeria's foreign exchange revenues go to service the country's $26 billion foreign debt. The problem is not the size of the debt, which is manageable, but with the bunching of short term payments over the next several years. The average maturity of the debt is only 3.5 years, as opposed to six years in 1985. Despite the high debt service burden, the government has maintained a good record of debt repayment and has repeatedly expressed its commitment to continue paying Algerian debts on time.

Since 1991, the Government of Algeria has managed its external debt by concluding three debt "re-profilings", the Algerian term for refinancings, and seeking longer term trade financing. Through the fall of 1993, the government eschewed seeking a multilateral debt rescheduling because this would have required an agreement with the International Monetary Fund. The Government of Algeria was concerned that devaluation and cuts in the budget deficit possibly required by the IMF would have had unacceptable social consequences.

As an alternative to rescheduling, the government concluded three debt refinancings. The first was a syndication organized by Credit Lyonnais in February 1992. The second was a decision by the Italian government to refinance $2.5 billion in debt maturing in 1991–93. The third, announced by the Central Bank in September 1993, involved the refinancing of about $175 million in debt owed by four Algerian public sector banks to three Japanese companies. Local bankers express doubt that further "re-profilings" will be possible until the Government of Algeria first reaches agreement on an economic reform program with the IMF.

As part of its debt restructuring efforts, the Algerian government also has sought to obtain more concessional financing, such as bilateral lines of credit. The government requires that import financing terms exceed 18 months for food, and 36 months for priority industrial and capital suppliers for financing on the grounds that such financing, often limited to the short term, is much more expensive than existing long term credit. Thus, imports are increasingly sourced from those countries with lines of credit in place such as France, Italy, the U.S., Japan, Belgium and Spain.

The implications of Algeria's debt burden for American 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 American sales to Algeria.

5. Significant Barriers to U.S. Exports

In October of 1992, the Algerian government imposed a new regulation limiting commodity imports. Three separate lists detail products which can and cannot be imported. The first list of priority imports includes items which the Government of Algeria believes are strategic products not available in adequate amounts locally. They include basic food items, medical supplies, and spare parts for exports of strategic commodities such as petroleum and building products. Importers of these items have priority access to available lines of credit. The second list includes products which can be imported but are not entitled to access existing foreign currency or available credit lines. These products are considered nonessential and are produced locally, though often of poor quality and in inadequate quantity. They can be financed through foreign currency accounts. The third list includes items considered luxury products which are banned completely. Agricultural products from the U.S. have always been subject to an authorization from the Ministry of Economy and are not affected by this regulation.

In November 1992, the government of Abdesselam set up an ad hoc committee to review all imports with a value exceeding $100,000. Figures from its inception through August 1993 show that the ad hoc committee approved $6.8 billion of imports, of which only $130 million, or 1.9 percent, went to the private sector. Surprisingly, the private sector had only requested $700 million, a testament of how small the private sector remains in Algeria. The Malek government has indicated it expects to replace the ad hoc committee with a more market-based system but the timing and specifics are not yet known.

Recent economic reforms have modified but not eliminated certain practices by Algerian government entities and state owned firms that have impeded American 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 extensive bilateral lines of credit with Algeria have an advantage over American firms in this regard. In addition, excessive demands for extra services or the acceptance of responsibility, levied on the foreign companies in the past by Algerian government agencies or state companies, have diminished. These agencies and companies 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. One American bank, Citibank, currently operates a representative office in Algeria, which was established in early 1992. Two private Algerian banks also are being formed. The insurance sector is currently a state monopoly, but the government is considering opening it up to private and foreign firms.

6. Export Subsidies Policies

Hydrocarbons continue to provide 97% of export earnings. Non-hydrocarbon exports remain limited because the products of most public sector enterprises are not internationally competitive, and because of the overvalued dinar. Algeria's budget deficit has thus far discouraged the government from initiating any sort of export subsidy program.

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.

8. Worker Rights

a. *The Right of Association.*—Algerians 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 permitted to receive funds from abroad, and the government may suspend a union's operations if it violates the law. Unions may form and join federations or confederations and affiliate themselves with international bodies.

b. *The Right to Organize and Bargain Collectively.*—A 1990 Law permits collective bargaining for all unions, and this right has been freely practiced. The law also prohibits discrimination by employers against union members and organizers and provides mechanisms for resolving trade union complaints of antiunion practices by employers. It further permits all unions, whether longstanding or newly created, to recruit members at the work place.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is incompatible with the constitution's provisions on individual rights. 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 work place. The minimum age is enforced in the State sector, the country's largest employment sector. It is not effectively enforced in the agricultural sector or the small private sector, but violations are not widespread. However, many children under 16 are also driven by economic necessity into informal employment, such as street vending.

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. A guaranteed monthly minimum wage rate for all sectors is fixed by government decree. Algeria has a 44-hour work week and a government decree regulating occupation and health standards.

f. *Rights in Sectors With U.S. Investment.*—A limited number of American firms are engaged in commercial activities in Algeria, mostly in connection with the hydrocarbon sector. Conditions for workers at these existing American investments as defined by the above-mentioned worker rights are better than those prevailing in the Algerian economy at large.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		45
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
Banking		0
Finance and Insurance		4
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		49

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

BAHRAIN

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
GDP at Current Prices	4,090	4,300	4,560

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted]

	1991	1992	1993[1]
GDP Growth (nominal)	3.0	5.0	6.0
Per Capita GNP	8,115	8,300	8,530
Labor Force (000's)	203	208	213
Unemployment (percent)	12	15	15
Money and Prices:			
Money Supply (M2: annual percentage growth)	16.9	4.1	7.6
Prime Interest Rate	11	7.5	6.0
Savings Rate	5.0	3.5	2.5
Consumer Price Inflation	1.0	2.0	3.0
Cons. Price Index (1983–84=100)	96.9	98.8	101.8
Exchange Rate ($/dinar)	0.377	0.377	0.377
Balance of payments and trade:[2]			
Total Exports (FOB)	3,459.7	3,408.2	3,750
Non-oil Exports to U.S	68.2	69.0	120
Total Imports (CIF)	4,057.8	4,133.7	3,550
Non-oil Imports from U.S.[3]	346.6	345.1	330
Economic Aid from Other Countries	25	50	50
Economic Aid from U.S	0	0	0
External Public Debt	N/A	N/A	N/A
Debt Service	N/A	N/A	N/A
Gold and FOREX Reserves	7,844	7,760	7,700
Trade Balance	−598.1	−725.5	−200
Non-oil Trade balance with U.S.[3]	−278.5	−276.1	−200

N/A—Not available.
[1] 1993 Figures are all estimates based on available data in October 1993.
[2] Trade figures are for merchandise trade.
[3] Excluding imports of military items and civilian aircraft.

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 the petroleum sector, 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 and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute over 60 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. The largest source of the government's oil revenue comes from Bahrain's 100,000-barrel/day share of the offshore Abu Saf'a field, a field which is shared with and managed by Saudi Arabia.

The budgetary accounts for the central government are prepared on a biennial basis. The current budget is for 1993–94, and was approved in April 1993. Budgetary revenues consist primarily of receipts from oil and gas (over 60 percent) supplemented by fees and charges for services, customs duties and investment income. Bahrain has no income taxes, and thus does not use its tax system to implement social or investment policies. In the 1993–94 budget, 1993 revenue is projected to be $1.537 billion and 1993 expenditures $1.703 billion. The projected deficit of $166 million is to be financed through the issuance of three-month treasury bills and five-

and seven-year government development bonds to domestic banks, as has been the normal practice of recent years.

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. 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 Bahraini dinar (BD) and the U.S. dollar at the rate of one U.S. dollar = 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the 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 recent years, the GCC has focused its attention on negotiation of 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 ongoing U.S.-GCC economic dialogue. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain participates in the Arab League economic boycott against Israel, but no longer strictly enforces the secondary boycott against third-country firms found to have certain economic relationships with Israel.

With a few exceptions for basic food stuffs and petroleum product prices, the Government of Bahrain does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices are basically dependent upon the source of supply, shipping costs and agents' mark-ups. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, local merchants have been 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 local banks. The $1.4 billion Aluminum Bahrain (ALBA) smelting plant expansion project, completed in December 1992, 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 establishment of representative offices or branches of foreign companies without local sponsors. Most other commercial investments are subject to government approval and generally must be made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia and the U.A.E., foreign nationals are not permitted to purchase land in Bahrain. The government encourages the employment of local nationals by setting local-national employment targets in each sector and by restricting the issuance of expatriate labor permits.

Government procurement practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministry of Works, Power and Water extends invitations to selected, pre-qualified 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 pre-qualification.

Customs procedures: The customs clearance process is used to enforce the boycott of Israel. Goods produced by blacklisted firms may be denied customs clearance or encounter delays in clearance. Customs also enforces Bahrain's 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.

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 gc .rnment 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

Bahrain is not yet a signatory to any major intellectual property convention, and its new copyright law, adopted in 1993, excludes from protection nearly all foreign works which are first introduced outside Bahrain. Consequently, 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.

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 trademark protection is generally left to the local agent or an appointed representative of the trademark owner. The government does not have a pro-active 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.

Bahrain's recently enacted Copyright Law, Legislative Decree No. 10 of 1993, applies only to intellectual properties of Bahrainis and Arab authors who are nationals of states which have ratified the Arab Copyright Protection Agreement of 1958. Intellectual properties of other foreign authors are protected only if published for the first time in Bahrain. The law therefore has virtually no effect on works of U.S. authors. There are no reliable estimates of losses to U.S. trade as a result of Bahrain's failure to provide adequate copyright protection.

8. Worker Rights

a. *The Right of Association.*—Bahrain's partially-suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain. However, labor regulations encourage the formation of elected workers' committees in the larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Consultative Councils (JCC's). The JCC's are composed of equal numbers of appointed management representatives and worker representatives elected from and by company employees. The elected labor representatives of the JCC's select the 11 members of the General Committee for Bahrain Workers (GCBW), which oversees and coordinates the work of the JCC's. The committee also hears complaints from Bahraini and foreign workers, and assists them in bringing their complaints to the attention of the Ministry of Labor or the courts. The JCC–GCBW system now represents close to 70 percent of the island's indigenous industrial workers. Twelve JCC's have been established in the major state-owned industries, and in 1993 the GCBW announced the extension of the JCC system into the private sector, and the planned formation of at least five new JCC's in major private companies. Ministry of Labor spokesmen have supported these moves, and have urged the formation of JCC's in all public and private sector companies employing more than 200 workers.

In 1992 the AFL–CIO filed a petition to remove GSP benefits from Bahrain for failure to provide internationally recognized worker rights. The review has been extended through the end of the 1993–94 review cycle.

b. *The Right to Organize and Bargain Collectively.*—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 entirely independent, recognized vehicle for representing their interests on these or other labor-related issues. Bahraini labor law neither grants nor denies workers the right to organize and bargain collectively, or to go on strike. There are no recent examples of major strikes, but walkouts and other job actions have been known to occur without governmental intervention and with positive results for the workers. Minimum wage rates are established by Council of Ministers' decree. Increases in wages above the minimum, which are subject to discussion in the JCC's, are set by management, with government salaries for comparable work often serving as an informal guide.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is legally prohibited, and the Ministry of Labor is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers have occasionally compelled foreign workers from developing nations to perform work not specified in their contracts, as well as Ministry of Labor responses. Once a complaint has been lodged by a worker, the Ministry of Labor opens an investigation and often takes remedial action.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 14. Juveniles between the age of 14 and 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; child labor outside that sector is less well monitored but is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work.*—Bahrain's labor law, enforced by the Ministry of Labor, 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. Minimum wage scales, set by government decree, exist for both private and public sector employees. Complaints brought before the Ministry of Labor which cannot be settled through arbitration must, by law, be referred to the Fourth High Court (La[illegible]) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the Court and labor law are generally considered to favor the worker/employee. The law provides protection for both Bahraini and expatriate workers. However, all foreign workers are required to be sponsored by Bahrainis or Bahrain-based institutions and companies. Foreign workers, particularly those from developing countries, are often unwilling to report abuses for fear of losing residence rights in Bahrain and having to return to their native countries, in which they may face significantly inferior working conditions and earning possibilities. In addition, the labor law specifically favors Bahrainis, followed by Arab expatriates, over all other expatriate workers in the areas of hiring and firing. Women are generally paid less than men, and are prohibited from performing night work, except in certain exempted fields. Women are entitled to 60 days of paid maternity leave, nursing periods during the day, and up to one year of unpaid maternity leave.

f. *Rights in Sectors With U.S. Investment.*—U.S. capital investment in Bahrain is concentrated 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). There is also a joint venture factory producing bottle caps. Workers at all these companies enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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		7
Banking		−162
Finance and Insurance		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		−124

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

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

EGYPT

Key Economic Indicators

[Millions of Egyptian pounds (LE) unless otherwise noted]

	1990/91	1991/92	1992/93 [1]
Income, Production, and Employment:			
Real GDP (86/87 prices) [2]	58,923	60,048	N/A
Real GDP Growth (pct.)	3.6	1.9	N/A
GDP (current prices) [2]	108,740	131,057	N/A
By Sector:			
Agriculture/Irrigation	19,110	21,680	N/A
Industry/Mining	18,920	21,730	N/A
Petroleum Products/Derivatives	10,999	13,008	N/A
Electricity	1,506	2,220	N/A
Construction	5,625	6,735	N/A
Transport/Communications	6,948	8,710	N/A
Suez Canal	4,371	6,125	N/A
Trade	17,141	21,730	N/A
Finance	3,715	4,545	N/A
Insurance	66	76	N/A
Tourism	921	2,420	N/A
Housing	2,141	2,350	N/A
Public Utilities	345	401	N/A
Social Insurance	77	87	N/A
Government Services	8,275	9,345	N/A
Personal Services	8,680	9,895	N/A
Real Per Capita GDP (LE, 86/87 prices)	1,082.4	1,074.3	N/A
Labor Force (000's)	14,760	15,268	15,571

Key Economic Indicators—Continued

[Millions of Egyptian pounds (LE) unless otherwise noted]

	1990/91	1991/92	1992/93[1]
Unemployment Rate (pct.)	8.4	9.0	10.0
Money and Prices:			
Money Supply (M2)	92,707	108,626	125,835
Bank Lending Rate (pct.)	21.0	20.3	19.5
Bank Saving Rate (pct.)	15.5	16.7	15.3
Cons. Price Index (pct. change)	14.7	21.1	11.1
Wholesale Pr. Index (pct. change)	16.2	18.5	7.1
Exchange Rate ($/LE)	0.336	0.301	[3]0.300
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports FOB[4]	3,886.8	3,636.4	2,521.1
Exports to U.S.[4]	531.6	362.2	335.8
Total Imports CIF[4]	11,424.5	10,039.5	7,762.4
Imports from U.S.[4]	1,801.3	1,683.3	1,427.6
Aid from U.S. (USFY, Obligations)	2,357.0	2,387.0	2,322.0
Aid from Other Countries	N/A	N/A	N/A
External Debt ($ billion)	34,000	34,300	34,400
Debt Service Payments	3,000	2,100	2,000
Net International Reserves	6,087	10,138	14,436
Trade Balance[4]	−7,537.7	−6,403.1	−5,241.3
Balance with U.S.[4]	−1,269.7	−1,320.8	−1,091.8

N/A—Not available.

[1] Except where otherwise noted, data years are based on Egypt's fiscal year, which runs from July 1 to June 30 (i.e., 1993 = Egypt's fiscal year July 1, 1992 to June 30, 1993).

[2] GDP at factor cost.

[3] Free market rate. Average based on daily posted rates.

[4] FY data from Central Bank Balance of Payments. Trade data for FY 1993 covers the period from July 1992 through March 1993.

1. General Policy Framework

In early 1991, Egypt launched a program of sweeping economic reforms to correct macroeconomic and external payments imbalances and to create a more open, market-oriented economy. In conjunction with its commitments under an IMF Stand-by arrangement, Egypt eliminated most foreign-exchange controls, unified the exchange rate, began implementation of a sales tax (which also applies to imports), significantly reduced the budget deficit, and instituted a system which allows both for market-determined interest rates and greater reliance on market-oriented monetary policy tools, such as a treasury bill auction. The initial macroeconomic stabilization program was highly successful, but the government has proceeded more cautiously with the far-reaching structural reform that was initiated under the World Bank Structural Adjustment Loan (SAL) agreement. In September 1993, the IMF agreed to Egypt's request for continued support of its adjustment program with an Extended Fund Facility amounting to SDR 400 million ($556 million) covering the period July 1993 through June 1996. The World Bank is working in parallel with the IMF on a Structural Adjustment Monitoring Program.

Follow-on IMF and World Bank programs focus on stimulation of private sector development. The government has taken tentative steps toward the eventual privatization of a portion of the massive public sector, which represents approximately 75 percent of industrial production. Trade reform has been significant; import bans on most commodities were eliminated in 1993, and the maximum tariff rate was reduced from 100 percent to 80 percent (with a few exceptions). Despite these liberalizations, the remaining high average tariff rate of about 30 percent and non-tariff barriers to importation continue to inhibit import growth.

As reforms proceed and the private sector gains more strength, exporters of U.S. products (which are popular in Egypt) may find improved market opportunities in Egypt. This will depend on the government's ability to generate more interest in private sector investment, which has been stagnant. Potential investors await progress in privatization and the elimination of bureaucratic barriers before proceeding with new projects.

The United States is Egypt's largest supplier of imports. U.S. exports to Egypt in 1992 totaled $3.1 billion. Annually over $200 million worth of exports are fi-

nanced through USAID's Commodity Import Program, over $200 million through various USAID projects and about $125 million under Department of Agriculture programs. A substantial portion of $1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

2. Exchange Rate Policy

As part of its IMF-supported stabilization program, Egypt went from a multiple exchange rate system to a dual rate in early 1991, and in November 1991 adopted a free-market exchange system subject only to Central Bank buying and selling intervention. The exchange system is essentially free of restrictions now. In an effort to deepen the foreign exchange market, the Egyptian government recently took further steps to relax limitations on non-bank dealers.

After an initial depreciation of the Egyptian pound by approximately ten percent, the exchange rate stabilized at about LE 3.31 per dollar in mid-1991 and has depreciated only slightly to LE 3.36 as of October 1993. Assisted-by generous Gulf Crisis aid, exceptional debt relief, and strong inflows from remittances, tourism, and Suez receipts, Egypt's balance of payments moved resoundingly into surplus in FY 91, and by September 1993, Central Bank reserves had swollen to approximately $15 billion (equivalent to almost 17 months of imports). In addition, 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 willingness to continue implementing prudent fiscal and monetary policies and to 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 U.S. exports to Egypt when demand conditions become more favorable and with expected future reductions in trade restrictions. Egypt's export competitiveness, however, has eroded due to the exchange rate which has not been depreciating to compensate for annual inflation rates of 10–15 percent.

3. Structural Policies

Egypt's trade policy liberalization program is designed to operate in tandem with the elimination of most domestic price controls. With the exception of pharmaceuticals, industrial prices are expected to be decontrolled completely by the end of 1993. Price controls on pharmaceutical products, which are administered inflexibly and are financially harmful to U.S. and other foreign manufacturers operating in Egypt, are expected to remain in effect for the foreseeable future. While energy, transportation, and water prices are expected to remain administered, price increases during 1993 have brought petroleum product prices to 83 percent of world prices and electricity prices to 73 percent of long-run marginal costs. Preferential electricity rates for most public sector industries have been eliminated. Deregulation of agricultural prices is expected to be completed by 1993, but cotton prices will not be freed until late 1994. The government still provides subsidies for local "baladi" bread, and vegetable oil.

Significant progress in trade liberalization has been achieved since 1991, but domestic industry still is protected by high tariff rates. In February 1993, the maximum tariff rate was reduced to 80 percent from its former 100 percent rate, with some exceptions (e.g., motor vehicles and alcohol). Under the IMF follow-on program, the maximum tariff for all goods except alcoholic beverages is to drop to 50 percent by the end of 1995. Preferential tariff rates (that had existed primarily for the public sector) were eliminated on all imported goods except baby milk and vessels imported by tourism companies. Continued liberalization of the import regime and free-market pricing of domestically-produced goods should help U.S. goods competing in the Egyptian market.

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. There were two successful public-sector company share offerings in 1993. The international financial community had anticipated greater progress in the government's privatization program, with which the government is proceeding cautiously. The government has pledged to complete the sales of 22 assets with an estimated book value of LE 900 million ($267 million) by the end of 1993. An estimated 25 percent of the total book value of all 314 state enterprises valued at approximately LE 73 billion ($22 billion) is targeted for sale by June 1995. Concern over labor's reaction to the loss of jobs is one of the primary reasons for not moving more quickly to restructure, privatize, or liquidate state enterprises. Preferential treatment for public-

sector enterprises has lessened, although some laws (such as the Government Procurement Law 9) still favor them. Government controls and convoluted bureaucratic procedures are significant barriers to private sector development. Demand for U.S. exports will depend in large part on success in attracting domestic and foreign investors with projects that stimulate the economy and create new job opportunities. It will also depend on continued financing through U.S. assistance programs and on U.S. company initiatives.

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.

To support reforms under Egypt's IMF Stand-by program, Paris Club creditors agreed in May 1991 to grant Egypt debt relief which would reduce the net present value of its eligible debt by 50 percent over three years if Egypt remained in compliance with IMF programs. (Egypt successfully completed its Stand-by program in May 1993, and an Extended Fund Facility was approved by the IMF Board on September 20, 1993.) Bilateral agreements have been signed with 16 of the 17 Paris Club creditor countries. U.S. forgiveness of $6.8 billion in military debts in 1990, which preceded Paris Club 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 with the Paris Club 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 four 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, and the debt service ratio has been reduced from 46 percent to around 17 percent. In compliance with the Paris Club agreement, Egypt has cleared-up 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 has made significant progress in reduction of non-tariff barriers since 1990, when the import ban list covered 210 commodities which represented 37 percent of Egypt's total manufacturing and agricultural production. In July 1993, the Egyptian government dropped all but three commodities from the import ban list. Commodities still banned from importation include fabrics, apparel, and poultry, which together represent approximately four percent of total production. The government has pledged to remove the ban on poultry in 1994 and review the ban on textile products in conjunction with GATT negotiations on the Multifiber Arrangement. The list of goods requiring prior approval before importation was also eliminated in 1993.

Standards: Egypt is a party to the GATT Standards Code. The Egyptian government pledged that it would not introduce any new non-tariff barriers as it reduced tariff rates and eliminated import bans. When the import ban list was reduced in August 1992 and July 1993, however, many items that came off that list were added to the list of commodities requiring inspection for quality control before importation. The "quality control list" consists of 159 items including: foodstuffs, spare parts, construction products, electronic devices, appliances, and many consumer goods. Standards, when they exist, are often ill-defined. Although Egyptian authorities stress that standards applied to imports and domestically-produced goods are the same, importers report that testing procedures for imports differ, and tests are carried out with faulty equipment by testers who often make arbitrary judgments.

Customs procedures: Customs duty assessment is often arbitrary, and rates charged are often higher than prescribed in the tariff code. Tariff valuation is based on the so-called "Egyptian selling price" based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product to have a value no lower than that noted on the invoice from the first shipment. As a result of that expectation, and the belief that under-invoicing is widely practiced, customs officials routinely increase invoice values from 10 to 30 percent. The government does not publish tariff rates bound in GATT, and in late 1991, importers began to experience difficulties with customs officials who refused to apply the lower rates that Egypt had offered in GATT for imports from GATT

member countries. Subsequent to customs authority actions, the government submitted to GATT a request for a waiver of its obligation to provide these lower rates. The waiver was approved with the government pledging to negotiate new rates with its GATT partners.

Barriers to trade in services: Branches of foreign banks have been prohibited from engaging in local currency and foreign exchange operations. In March 1993, the Bank Law was amended to allow existing foreign bank branches to conduct local currency dealings, and two U.S. bank branches have received licenses to do so. Foreign investors are prohibited from establishing foreign exchange companies. The domestic insurance market is closed to foreign companies, but they may operate in free trade zones as minority partners only. Four public-sector insurance companies (one of which is a reinsurance company) dominate the market, although three private-sector Egyptian companies exist. Two joint ventures, each with 49 percent U.S. ownership, operate in the free zones.

Other services barriers include the following: a screen quota exists for foreign motion pictures; only Egyptian nationals may become certified accountants; there is no law regulating leasing activities in Egypt; and there is regular censorship of films and printed materials.

Investment barriers: In order to ease barriers to private investment, in 1991 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 includes energy-intensive projects (raw aluminum and ferro-alloy production), military products and related industries, tobacco products and investments in the Sinai (except for oil, gas, and mineral exploration). Assembly industries, which had been approved on the basis on local content, were eliminated from the "Negative List" in August 1993. Customs regulations retain, however, a local content feature in which duties on imported components are reduced according to the local content of the finished product. Under its IMF follow-on program, Egypt has pledged to remove energy-intensive projects from the "Negative List" in 1994.

Although the paperwork associated with obtaining an "automatic approval" for an investment project has been reduced substantially, foreign investors seeking incentives under Investment Law 230 must obtain project approval from the board of directors of 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. While its safeguard provisions are generally no more liberal than those in Law 230, it provides a further measure of protection to U.S. investors. The BIT has not yet resulted in significant new U.S. investments which would stimulate Egyptian demand for U.S. machinery, spare parts, and technical services.

Government procurement practices: Egypt has not signed the GATT Government Procurement Code. Although Egypt does not employ systematic or discriminatory policies which adversely affect U.S. businesses, the government buys from public-sector firms whenever possible. Public-sector suppliers and contractors generally receive preference, and domestic public- or private-sector firms are chosen when their offers are within 15 percent of the highest foreign bid. Government tenders should be awarded to the best-qualified, lowest bidder; however, it is typical for government negotiators to bargain with several bidders. Government procurement law favors the government; there is no penalty for government delays in making an award decision or in returning bid or performance bonds. Egypt has moved away from government-to-government barter agreements and toward private sector initiatives.

6. Export Subsidies Policies

Egypt's trade reform program aims at removing barriers to export production. Export subsidies as such do not exist in Egypt. Under Investment Law 230, free zone projects, the majority of which produce goods for export, benefit from duty exemptions on imported inputs and, in general, exporting industries receive some rebates on duties paid on imported inputs at the time of export of the finished product. Under its SAL commitments to the World Bank, the Egyptian government has increased energy and cotton procurement prices, and has eliminated electricity price benefits for most public sector industries, thus reducing the indirect subsidization of exports.

7. Protection of U.S. Intellectual Property

Egypt is a member of the World Intellectual Property Organization. For copyright protection, it is a party to the Bern and the Geneva Phonogram Conventions; for patents and trademarks, the Paris Convention, the Madrid Agreements on false la-

beling of goods and the International Registration of Marks, the Nice Convention for the Classification of Goods and Services and the Strasbourg Patent Classification Agreement. Thus, Egypt bears a commitment to protect U.S. intellectual property.

Continuing U.S. concerns regarding inadequate protection of intellectual property in Egypt and failure to achieve significant progress in improving protection led the U.S. Trade Representative to the April 1993 decision to maintain Egypt on the Special 301 "Priority Watch List." It was also decided that a special "out-of-cycle review" of progress would be conducted to determine whether additional steps under Special 301 needed to be taken before the May 1994 annual review. The "out-of-cycle review" resulted in a decision to maintain Egypt on the "Priority Watch List." On October 4, the U.S. Trade Representative announced that his office had accepted a petition to rescind Egypt's tariff benefits under the U.S. Generalized System of Preferences because of inadequate protection of intellectual property rights. A final decision is expected by mid-1994.

Patents (product and process): Egypt's 1949 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 worked adequately to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, may be granted if a patent is not worked in Egypt within three years or is worked inadequately. In August 1993, U.S. officials conferred with Egyptian officials and proposed revisions to the draft patent law text. Egypt has made a commitment to the United States to submit a new patent law to the People's Assembly by September 1994.

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. The amendments, however, did not resolve all areas of U.S. concern, and U.S. officials are engaged in an ongoing dialogue with the Egyptian government on further improvements to the Copyright Law. Outstanding issues include: the period of protection for software, deposit regulations, rental rights, translation rights, and protection for sound recordings.

The Bern Convention, to which Egypt acceded in 1977, is self-executing according to Egyptian officials. Thus, in cases where the coverage of the 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 Bern Convention provisions in the Egyptian courts for works created after U.S. adherence to Bern in 1989. Police have conducted hundreds of raids on pirate establishments since the copyright law was amended, but Egyptian courts have not yet decided a case under the new law.

Trademarks: Trademark protection is provided by Law 57 of 1939. Instances of alleged trademark infringement have been cited with increasing frequency by U.S. and other foreign firms operating in Egypt. The trademark law is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than $100 per seizure, not per infringement.

8. Worker Rights

a. *The Right of Association.*—Egyptian workers may, but are not required to, join trade unions. A union local, or worker's committee, can be formed if 50 employees express a desire to organize. Most union members, about 25 per cent of the labor force, are employed by state-owned enterprises. The law stipulates that "high administrative" officials in government and the public sector may not join unions. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The International Labor Organization has long noted that a law requiring all trade unions to belong to a single federation infringes on the freedom of association. The government has shown no sign that it intends to accept the establishment of more than one federation. Nevertheless, ETUF leadership asserts that it actively promotes worker interests and that there is no need for another federation. ETUF officials have close relations with the ruling National Democratic Party and some are members of the legislature. They speak vigorously on behalf of worker concerns, but public confrontations between ETUF and the government are rare. Disputes are more often resolved by consensus behind closed doors.

b. *The Right to Organize and Bargain Collectively.*—A draft labor law provides statutory authorization for collective bargaining. Under the current law, unions may negotiate work contracts with public-sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law. Larger firms in the private sector generally adhere to such government-mandated standards. 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 six hours a day, but not after 7 p.m., and not in dangerous activities or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. A 1989 study estimated that two-thirds of child labor, perhaps 720,000 children, work on farms. However, children also work as apprentices in repair and craft shops, and as workers in heavier industries such as brick-making 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 is approximately $20 a month for a six-day, 48-hour work week. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. It is doubtful that the average family could survive on a worker's base pay at the minimum wage rate. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. 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 free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors With U.S. Investment.*—The worker rights described in the foregoing sections also apply to workers in the following industries: petroleum, food and related products, metal, non-electric machinery, electric and electronic equipment, and transportation equipment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		735
Total Manufacturing		74
Food & Kindred Products	(1)	
Chemicals and Allied Products	19	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	4	
Electric & Electronic Equipment	4	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		−20
Banking		89
Finance and Insurance		5
Services		35
Other Industries		3
TOTAL ALL INDUSTRIES		922

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

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

IRAN

Key Economic Indicators

[Millions of Iranian rials (IR) unless otherwise noted]

	Years ending March 20		
	1990–91	1991–92	1992–93
Income, Production, and Employment:			
Population (millions)	54.6	55.8	57.0
Real GDP:			
(billion 1985 rials)	15,918	16,871	[1] 17,647
(million US$) [1]	54,000	59,800	65,000
Per Capita GDP US$ [1]	989	1,071	1,140
Real GDP Growth (pct.)	11.2	8.6	4.6
GDP by Sector (pct. of GDP):			
Manufacturing	19.4	21.2	21.0
Agriculture	24.1	23.3	23.3
Petroleum	18.4	21.2	21.0
Services	36.6	35.5	36.0
Money and Prices:			
Money Supply (M1, billion rials)	11,200	14,300	17,000
Interest Rate on Short-term Deposits (pct.)	6.5	6.5	7.0
Wholesale Price Index (1985 = 100) end-year	322.6	417.1	547.6
Consumer Price Index (1985 = 100) End-year	280.7	346.6	411.0
Exchange Rate (IR per $):			
Basic Rate	68.6	67.4	67.1
Floating Rate	1,360	1,440	1,540
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	19,305	18,415	19,280
Exports to U.S. [2]	230.7	0.8	0.2
Total Imports (FOB)	18,330	24,975	[1] 24,000
Imports from U.S. [2]	527.1	747.5	[3] 505
Trade Balance	975	−6,560	−5,720
Current Account	−2,200	−10,300	[1] −10,000

[1] Estimated.
[2] Year Ending December 31.
[3] January–September 1993.

1. *General Policy Framework*

In 1993, Iranian President Rafsanjani slowed his push for economic reforms in the face of political opposition. Defense spending continues to burden the economy, while a crushing short-term credit crunch has brought Iran to the point where it has stopped paying many of its debts.

The government did achieve one painful economic reform—the unification of exchange rates (see below). However, policy backsliding has already occurred. The government has reinstituted trade and exchange controls and pays explicit subsidies for some goods that were previously imported at preferential rates. Rafsanjani has had to abandon some of the other central points of his economic program.

From the Iranian year ending in March 1989, to the Iranian year 1991/92, Iran's imports doubled from $10.6 billion to $25 billion. This large influx of imports has abated due to the credit crunch. Currently, the Government of Iran does not have any strategy to deal with its debt crisis. Even the limited political reform measures available to the government are likely to meet determined resistance from both Islamic hardliners and various interest groups that fear the impact of reform.

There are no diplomatic relations between the United States and Iran. 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, there is a modest trade relationship; U.S. exports to Iran

generally have been climbing over the past several years, and continued to grow in 1993.

2. Exchange Rate Policies

Iran moved from its former three-tiered system of legal exchange rates to a unified exchange rate on March 20, 1993. The unified rate is intended to reduce the corruption under the old system and eliminates serious economic distortions.

The exchange rate reforms were intended allow relaxation of the strict import controls that were required to conserve scarce foreign exchange. However, the credit crunch and the unwillingness of the government to allow market forces alone to determine the exchange rate have forced continued reliance on quantitative controls. In the absence of a major and unexpected increase in oil prices, Iran is now unable to implement a general policy of trade liberalization.

3. Structural Policies

The banking, petroleum, transportation, utilities, and mining sectors 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 1993 was uneven.

Privatization efforts are flagging in the face of the independent political power of the bonyads, large foundations which were given the property and businesses confiscated from the former Shah's family and associates.

The petroleum sector is the economy's traditional mainstay. The government is unlikely to achieve its publicly-stated goal of five million barrels per day (mbd) of sustainable capacity in the near future. Currently, maximum sustainable capacity is around four mbd and Iran's OPEC quota is 3.6 mbd. Capacity is constrained by financing problems, the natural decline in the productivity of major onshore fields, delays in implementing necessary gas reinjection projects, and a shortage of experienced personnel.

Relaxation of price controls continued in some areas, but the government has maintained controls on certain politically sensitive commodities. However, rice and meat prices continue to increase. Rationing of cooking oil and rice continues due to short supply. Iran's domestic prices are among the very lowest in the world for many petroleum products. This encourages oil consumption and reduces export earnings considerably.

The war with Iraq and domestic price controls necessitated an elaborate rationing system for certain commodities. Iranian policy makers are implementing limited reforms, including putting subsidies on-budget. Food subsidies slated for elimination were re-instated in the fall of 1992; $3.8 billion was included in the 1993 budget for such subsidies. The Iranian authorities intend to maintain a limited "social safety net" of consumer subsidies.

4. Debt Management Policies

During the eight-year war with Iraq, Iran contracted almost no external debt. Over the past four years, Iran has borrowed large amounts, primarily in the form of short-term trade credits (often covered by creditor government guarantees), in order to increase domestic living standards, rebuild its petroleum and industrial sectors, and modernize its armed forces.

Iran's credit crunch is crippling its trade. Commercial lenders are developing more stringent policies, and have suspended some export insurance coverage. Iran's arrears have climbed above $6 billion and may reach $10 billion in early 1994.

Iran's efforts to reach agreements to reschedule its official debt were still largely unsuccessful by October, 1993. Several export credit guarantee agencies, including those of Japan, France, Germany, and Italy, have either suspended coverage for Iran or are considering new loans only on a case-by-case basis.

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 are 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 Octo-

ber 29, 1987. An exception to the embargo, allowing some licensed imports of Iranian oil (in connection with payments to U.S. claimants awarded by the U.S.-Iran Claims Tribunal at The Hague), 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 not a member of the World Intellectual Property Organization, but is a signatory to the Paris Convention for the Protection of Industrial Property. Patent protection is below the level of protection in the United States. Iran has not adhered to any of the international copyright conventions.

8. Worker Rights

a. *The Right of Association.*—Article 131 of Iran's 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 work place 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.

b. *The 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 six-day workweek of 48 hours maximum (except for overtime at premium rates), with one 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 work place 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 effects of the war with Iraq, and the general lack of effective labor unions, it is unclear to what extent the provisions of Iran's labor law affect most of the labor force.

f. *Rights in Sectors With U.S. Investment.*—The U.S. investment which remains in post-revolutionary Iran as reported to the U.S. Department of Commerce (see table below) is residual investment in the petroleum sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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
Banking		0
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

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

IRAQ

In response to the Iraqi invasion of Kuwait on August 2, 1990, the President, acting under authority of the International Emergency Economic Powers Act, issued Executive Orders 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 U.S. 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 economic sanctions have had a drastic effect on Iraq's economy, which is dependent on revenue from oil exports to finance its growth. UN sanctions have cut Iraq's living standards to half the pre-war level. Although no price indices are available, the cost of living has increased drastically as a result of UN sanctions. The Iraqi dinar's value on the black market has plunged and no longer bears any relation to its official rate of exchange (1 dinar = $3). The price of the dollar is now over 100 dinars and rising rapidly as a result of unrestrained printing of new currency and counterfeiting. It is reasonable to assume that economic conditions will deteriorate further as long as economic sanctions remain in effect.

Although Iraq has completed some highly visible reconstruction of basic infrastructure, overall progress is uneven and difficult to sustain. Much of the reconstruction is temporary, requiring cannibalization to obtain parts and further drawing down extensive stocks of spares built up before the war. The rebuilding achieved by the government has been magnified by concentrating it in areas which support Saddam and are visible to outsiders. Although civilian factories were little damaged during the war, most are closed or operating one or two days a week, hampered by continued shortages of raw materials and spare parts. Unemployment is rife.

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 six-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, with some exceptions, transfer such assets to a United Nations escrow account. The resolution also directs states holding Iraqi petroleum or petroleum products to take all feasible steps to liquidate such holdings and transfer the proceeds to the escrow account. The escrow account will support the same UN humanitarian and operational programs 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 international trade. 4. Reliable economic statistics are unavailable, and those produced by the Government of Iraq cannot be considered accurate.

ISRAEL

Key Economic Indicators

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1990 prices, NIS bill.)	111.8	119.2	124.0
Real GDP Growth (pct.)	6.2	6.6	4.0
Nominal GDP (US$ billion)	57.9	65.6	68.2
By Sector:			
Trade and Services	18.5	21.1	N/A
Manufacturing	18.1	20.5	N/A
Transport and Communications	8.5	9.6	N/A
Construction	7.8	8.4	N/A
Agriculture	4.1	3.1	N/A
Water and Electricity	2.4	2.8	N/A
Real Per Capita GDP (NIS)	22,095	22,923	23,178
Nominal Per Capita GDP ($)	11,443	12,615	12,748
Civilian Labor Force (million)	1.77	1.86	1.95
Unemployment Rate (pct.)	10.6	11.2	10.5
Money and Prices (annual percentage growth):			
Money Supply (M2) (avg. balance)	35	24	N/A
Base Interest Rate[2]	26.4	19.9	N/A
Savings Rate (private)	12.9	10.3	N/A

Key Economic Indicators—Continued

	1991	1992	1993[1]
Investment Rate (gross)	16.6	10.8	N/A
Wholesale Price Index	14.6	5.1	7.8
Consumer Price Index	18.0	9.4	10.0
Exchange Rate (shekel/$)	2.30	2.5	2.8
Balance of Payments and Trade (billion U.S. dollars):			
Total Exports FOB	11.22	12.43	13.51
Exports to U.S	3.60	4.00	4.50
Total Imports CIF	16.70	18.56	20.34
Imports from U.S	3.26	3.23	3.50
Aid from U.S	3.7	3.0	3.0
Aid from Other Countries	N/A	N/A	N/A
External Total Debt[3]	24.31	22.97	N/A
Annual Debt Service Paid	2.68	2.97	N/A
Gold Reserves[4]	N/A	N/A	N/A
Forex Reserves[4]	6.3	5.6	6.5
Balance of Payments (current)	−0.3	0.1	N/A
Balance with United States	0.34	0.76	1.0

N/A—Not available.

[1] Estimates from proposed 1994 Israeli government budget.
[2] Local currency short-term credit to the public (average).
[3] Net liabilities of government sector, non-financial 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.

1. General Policy Framework

Israel's economy expanded rapidly in 1992, at an annual rate of six percent. The inflation rate dropped significantly from 18.0 percent to 9.4 percent, in part because of high levels of unemployment, which rose to 11.2 percent.

International transactions showed a sharp increase in 1992. Exports rose by 15 percent and civilian imports grew by 13 percent, generating a trade deficit of some $6 billion. The United States continues to be Israel's single largest trading partner. Bilateral trade exceeded $7 billion in 1992, with Israel accruing a trade surplus with the United States of some $700 million. Bilateral trade is expected to grow, and U.S. products, most of which receive duty-free treatment under the U.S.-Israeli Free Trade Area Agreement, should continue to do well in the Israeli market.

Israel's high outlays on defense and social programs contribute to an annual budget deficit, which in 1992 equaled 2.4 percent of GNP. Israel finances its deficit through sale of government bonds, sale of government-owned companies, tax revenues, unilateral transfers from abroad, and borrowing on the international market. Under balanced-budget legislation passed in 1991, the deficit ceiling is required to be reduced by a set percentage every year. While the 1993 budget maintains the mandated 3.2 percent deficit ceiling, the government has presented new legislation to replace mandated reductions in future years with a general requirement that each year's budget deficit be less than that of the previous year.

Projections for 1993 show a significantly slower growth rate for the economy. The completion of government-backed residential construction projects and a decrease in consumer demand in the immigrant sector will slow economic growth to an estimated 4.0 percent. Exports and government investment in infrastructure are not expected to expand sufficiently to push the GDP growth rate to the high levels of 1991 and 1992. However, government policies such as reducing the deficit from 4.2 to 3.0 percent of GDP and shifting national priorities from investment in the Occupied Territories to investment in infrastructure and human capital within Israel have laid the groundwork for future growth. Foreign investment is likely to increase as the peace process advances and Israel forges new economic relations with the Palestinians and its Arab neighbors.

2. Exchange Rate Policies

Under the "diagonal" exchange mechanism introduced in December 1991, the shekel floats within a band five percent above or below an established midpoint tied to a basket of foreign currencies. The midpoint is shifted gradually against the basket on a daily basis, while the actual exchange rate responds to the demand for for-

eign currency. Since its introduction, the diagonal mechanism has successfully forestalled large speculative currency movements and attendant swings in reserves and interest rates.

3. Structural Policies

Prime Minister Rabin's government, elected in June 1992, pledged to restructure the economy by liberalizing and privatizing large government holdings. Though there have been some successes to date, progress has been slower than expected. Rather than sell the national telecommunications monopoly Bezeq to a private investor, the government decided to retain a controlling interest in the company, while selling off the remaining minority shares. The sale of additional stock is tied to a plan to liberalize the telecommunications sector by introducing competition in the mobile phone and international long distance services over the next two years. Privatization efforts, which initially targeted such government flagships as the national airline, El Al, and the national shipping company, Zim, are proceeding slowly. Bank privatization, however, is moving ahead at a quicker pace, with the government already having sold controlling interests in one bank and some government-held shares in the two largest national banks.

Capital market reform and liberalization of foreign exchange movements initiated in 1987 have continued, integrating the Israeli banking system more closely with international financial markets and paving the way in 1992 for an 80 percent increase in Israeli investment abroad. The government reduced the tax burden in 1992, lowering by one percentage point the Value Added Tax, reducing corporate taxes, and eliminating the two percent "Peace for Galilee" import tax and airport travel tax. In 1993, the government introduced legislation to reduce concentration in the banking sector.

4. Debt Management Policies

Israel's foreign debt declined 5.5 percent in 1992, bringing it to about $23 billion. The government held approximately $18 billion of the debt, the private sector about $4 billion, and the banking system about $1.5 billion. Israel's foreign assets rose 4.4 percent in 1992, bringing down its net liabilities to $14.7 billion, or 22 percent of GNP. Israel's debt service ratio as a percentage of merchandise exports has continued to decline and stood at 15 percent by the end of 1992.

Israel's external debt is expected to rise beginning in 1993 as Israel utilizes U.S. loan guarantees to help finance immigrant absorption. U.S. legislation adopted in October 1992 made up to $10 billion of loan guarantees available to Israel in increments of up to $2 billion per year over a five-year periods.

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 Agreement (FTAA). Duties on a second group of products, a "B list," are falling toward zero by January 1, 1995 in annual increments, and are now at 10 percent of MFN rates. Tariffs on a "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 FTAA liberalized and expanded the trade of goods 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 FTAA, potential problems remain in textiles, apparel and steel.

A purchase tax (ranging from 25 to 95 percent) is applied on items considered luxury goods such as automobiles, consumer electronics, and some agriculture and food items. 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. For purposes of calculating duty and other taxes, the Israeli Customs Service arbitrarily uplifts by two to five percent the value of most products which exclusive agents import, and by 10 percent or more the value of other products. Israel 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, and baked goods. Quantitative restrictions, and in some cases, outright prohibitions, affect primarily U.S. plywood, poultry, and dairy products.

Israel has reduced the burden of some of its discriminatory measures against imports. The government eliminated the two percent "Peace for Galilee" tax on imports in July 1993. Israel's port fee system still discriminates against imports by levying a 1.5 percent CIF value port fee on imports, but not exports. This fee was reduced from 2.0 percent in 1993. Additionally, in 1993 Israel agreed to streamline customs procedures by providing leading U.S. exporters with a blanket certification procedure and eliminating certain other notarization requirements for all U.S. exporters. These changes should facilitate the flow of goods between the United States and Israel.

Israel agreed in late 1990 to harmonize standards treatment, either dropping health and safety 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. In May 1993 Israel said package size standards would be revised in a way that would facilitate entry of some standard U.S. units. This has not yet been done. Israel has agreed to notify the United States of proposed new, mandatory standards to be recorded under the GATT.

The Standards Institution of Israel is proposing a bilateral Mutual Recognition Agreement of Laboratory Accreditation with the United States that could result in the acceptance of U.S. developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements.

The Israeli government actively solicits foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and are eligible for incentives for designated "approved" investments in priority development zones. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty once an investment has been executed through a licensed bank. About 100 major U.S. companies have subsidiaries in the Israel and some 170 Israeli companies have subsidiaries in the United States. 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. The United States is energetically pursuing a lifting of the Arab boycott, which continues, however, to burden trade and impede foreign 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. The United States government is pressing for more extensive GATT code coverage of Israeli government entities to enable more open and transparent international tendering procedures. Under the legislation establishing the loan guarantee program, U.S. exports of investment goods to Israel are expected to increase substantially as Israel makes use of the loan guarantee funds. To this end, the United States is pressing Israel to provide full and timely information on existing and proposed tenders.

The Government of Israel frequently seeks "industrial cooperation" offset agreements up to a maximum of 35 percent of total contract value for purchases by ministries, state-owned enterprises and municipal authorities. Failure to enter or fulfill such industrial cooperation agreements (investment, co-development, co-production, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, U.S. firms may still encounter requests to enter into offset arrangements. Israeli government agencies and state-owned corporations not covered by the GATT Government Procurement Code follow this "buy national" policy to promote national manufacturers.

Recent legislation codified and strengthened a 15-percent-of-cost preference accorded domestic suppliers in many Israeli public procurement purchases.

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 FTAA. Israel signed a third FTAA agreement with the EFTA countries, which entered into force in 1993, presenting U.S. exporters with additional competition from EFTA duty-free products.

6. Export Subsidies Policies

In the FTAA, the U.S. and Israel committed 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, and in 1993 eliminated the major remaining export subsidy, an exchange-rate, risk-insurance scheme which paid exporters five percent on the FOB value of merchandise. Israel still retains a mechanism to extend long-term export credits, but the volumes involved are small—roughly $250 million. Israeli export subsidies have resulted in past U.S. countervailing duty cases. In 1993 the United States government cited no new cases. Israel has been a member of the GATT Subsidies Code since 1985.

7. Protection of U.S. Intellectual Property

Israel is a member of the World Intellectual Property Organization and is party to the Paris Convention for the Protection of Industrial Property, the Madrid Agreement on Deceptive Indication of Source, the Strasbourg International Patent Classification Agreement, the Universal Copyright Convention, the Geneva Phonogram Convention, and the Bern Copyright Convention.

Standards of copyright protection are adequate, but enforcement in some areas is weak. U.S. industry has complained that Israeli companies violate intellectual property rights by illegal duplication of video cassettes. Unauthorized showings of films and television programs by unregulated cable television systems constitute a widespread form of copyright infringement. Legislation is currently being drafted to improve copyright protection in cable television broadcasts. Protection for software has been upgraded, and the two major movie distribution chains generally comply with copyright requirements. 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.

8. Worker Rights

a. *The Right of Association.*—Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor in Israel (Histadrut) and are independent of the government. About 60 percent of the work force, including Israeli Arabs, are members of Histadrut trade unions, and still more are covered by Histadrut's social and insurance programs and collective bargaining agreements. Nonresident workers, including the approximately 50,000 nonresident Palestinians from the West Bank and Gaza currently working legally in Israel, may not be members of Israeli trade unions, but are entitled to some protections in organized work places. The right to strike is exercised regularly. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively.*—Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting antiunion discrimination, the basic law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. *Minimum Age for Employment of Children.*—By law, children under the age of 15 may not be employed. Employment of those aged 16 to 18 is restricted to ensure time for rest and education. Israeli labor exchanges do not process work applications for West Bank or Gaza Palestinians under age 17. Ministry of Labor inspectors enforce these laws, but advocates of children's rights charge that enforcement is lax, especially in smaller, unorganized work places.

e. *Acceptable Conditions of Work.*—Legislation in 1987 established a minimum wage at 45 percent of the average wage, calculated periodically and adjusted for cost of living increases. In 1993 the government increased resources available to tighten enforcement of minimum wage legislation, but continued to identify this as a problem. Along with union representatives, the Labor Inspection Service enforces labor, health, and safety standards in the work place. By law, maximum hours of work at regular pay are 47 hours per week (8 hours per day and 7 hours the day before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are technically covered by the laws and collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors With U.S. Investment.*—U.S. direct investment is concentrated in high-technology sectors such as electric and electronic equipment and software, where the degree of union organization and collective bargaining is less that in other industries. Although many employees in these sectors are Histadrut members, they often choose not to exercise the right to organize and bargain collectively, pre-

ferring to negotiate contracts individually. Employers often prefer to pay more than union scale in order to maintain management flexibility and avoid collective bargaining.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		960
Food & Kindred Products	(1)	
Chemicals and Allied Products	44	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	16	
Electric & Electronic Equipment	588	
Transportation Equipment	3	
Other Manufacturing	(1)	
Wholesale Trade		130
Banking		0
Finance and Insurance		327
Services		49
Other Industries		128
TOTAL ALL INDUSTRIES		1,543

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

JORDAN

Key Economic Indicators

[Millions of Jordanian Dinars unless otherwise noted]

	1991	1992	1993 [1]
Income, Production, and Employment:			
Real GDP [2] (1985 prices)	1,939.5	2,159.0	2,288.5
Real GDP Growth (pct.)	1.8	11.3	6.0
GDP (at current prices) [2]	2,779.4	3,257.0	3,582.7
By Sector:			
Agriculture	174.3	204.0	N/A
Energy and Water	62.0	70.9	N/A
Manufacturing	343.7	426.0	N/A
Construction	125.4	152.4	N/A
Rents	5.3	7.4	N/A
Financial Services	456.1	518.7	N/A
Other Services	90.3	95.4	N/A
Government, Health and Education	471.3	555.0	N/A
Net Exports of Goods and Services	−1,196.2	−1,399.9	−1,410.0
Real Per Capita GDP (85 bps)	498.8	538.1	650.0
Labor Force (000's)	680	706	711
Unemployment Rate (percent)	19	14	12
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.9	9.40	11.0
Base Interest Rate [3]	8.5	8.5	8.5
Personal Saving Rate	10.0	12.0	12.0
Retail Inflation	8.2	4.0	5.0
Wholesale Inflation	5.1	4.8	5.0
Consumer Price Index [4]	168.1	174.8	181.0

Key Economic Indicators—Continued

[Millions of Jordanian Dinars unless otherwise noted]

	1991	1992	1993[1]
Exchange Rate ($/JD): Official[5]	1.5	1.5	1.45
Balance of Payments and Trade:			
Total Exports FOB[6]	770.7	829.3	800.0
Exports to U.S	2.3	4.2	5.6
Total Imports CIF[6]	1,710.5	2,214.0	2,000.0
Imports from U.S	178.2	246.2	230.0
Aid from U.S	57.0	50.0	116.0
Aid from Other Countries	225.2	198.2	210.0
External Public Debt	5,516.8	5,203.1	4,700.0
Debt Service Payments (paid)	314.8	329.5	328.0
Gold and FOREX Reserves	949.1	1,001.1	915.0
Trade Balance	−939.8	−1,384.7	−1,200.0
Balance with U.S	−175.9	−242.0	−224.0

N/A—Not available.

[1] 1993 Figures are all estimates.
[2] GDP at Producers' Prices.
[3] Average re-discount rate.
[4] Actual index, not changes in the index.
[5] Actual exchange rate.
[6] Merchandise trade.

1. *General Policy Framework*

The Jordanian economy achieved an unprecedented growth record of nine percent in 1992. GDP growth was approximately 11 percent in real terms and about 17 percent at current prices. During 1992, the rate of investments to GDP reached a peak level of 29 percent. This was due to a boom in the construction sector which continued until the first quarter of 1993. The Government of Jordan's targets for this year include achieving six percent growth of GDP, three percent higher than the IMF's targets. Jordan and the IMF reached an agreement in July this year to extend the 18-month, January '92–June '93, economic adjustment program for a six-month period ending in February, 1994. By this latter date, the Jordanian government is expected to submit a proposal for a new economic restructuring program that would enable Jordan to resume debt rescheduling negotiations with the creditors of the Paris Club. Jordan would also be able to draw on a new stand-by credit arrangement for an additional 18-month period.

The Jordanian government's future policy decisions are expected to adapt to regional political and economic developments. Jordan may implement the new economic and social development plan for the period 1993–1997 which was officially released on September 18, 1993. The plan's targets draw on the letter of intent the Government of Jordan signed with the IMF in 1992 for the period ending in 1998. Successful implementation of the $7.8 billion investment plan will rely on the Jordanian private sector which is expected to contribute between 61 percent and 67 percent of the required funding throughout the five-year period. The Government of Jordan expects to receive external aid and financing in order to pay for its share of the plan's projects. This five-year plan is to be treated as an annual policy framework that may be adjusted based on annual budgetary performance.

By 1997, Jordan plans to: 1) achieve an annual GDP real growth rate of six percent; 2) reduce the budget deficit (before financing) to three percent of GDP; 3) achieve a current account equilibrium in the balance of payments; 4) reduce Jordan's external debts to 100 percent of GDP; 5) reduce external debt service payments (principal plus interests) to 25 percent of exports; 6) maintain the rate of inflation between four percent and five percent; 7) reduce unemployment to 9.6 percent; 8) raise gross consumption per capita to JD 776; and 9) raise per capita GDP to JD 894.

Jordan's priorities are to: combat unemployment, reduce subsidies for government services, reduce the budget deficit, broaden the tax base, reform tax policies, reduce public investments as a percentage of GDP, reduce the government consumption rate as a proportion of gross national consumption and increase domestic savings to stimulate local investments. Furthermore, the Jordanian government intends to: increase domestic revenues to cover a greater portion of budget expenditures, and implement budgets-by-governorates as of 1994 and amend the Customs Law.

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The Central Bank of Jordan's (CBJ) continues to adopt restrictive policies to enhance the country's monetary stability, ensure the stability of the Jordanian dinar and its purchasing power, control credit expansion, increase the country's foreign exchange revenues by enhancing national exports, encourage banking mergers and investment banking, and strengthen capital formation of the banking system by applying new capital sufficiency requirements.

2. Exchange Rate Policies

The Central Bank of Jordan regulates dealing in foreign currencies in Jordan and sets the Jordanian Banking System Exchange Rate. Money-changers, who were licensed in 1992 are 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. The dollar/dinar average (between buying and selling) exchange rate, on October 19, 1993 was one dinar equals $1.44, or alternatively $1.00 equals 696 fils. There are 1000 fils to the dinar. The current rate is three points lower than the annual average rate ($1.47) which prevailed during 1991 and 1992.

In accordance with Foreign Exchange Control Law No. 95 and other instructions, the Central Bank of Jordan is the ultimate authority in enforcing foreign exchange controls in Jordan. Its foreign exchange controls cover all fields of transactions in the Kingdom including: 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. The Central Bank of Jordan recently announced that it is considering making the dinar fully convertible. To support its capital and reserve base, the Central Bank of Jordan has received government approval to raise its capital to JD 18 million, up from the present JD six million level. The additional JD 12 million will be transferred from the Central Bank of Jordan statutory reserve account, and the central bank will start building its general reserves position from a zero position as of January, 1994.

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 frozen 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. Subsidized prices and controls have no impact on U.S. exports to Jordan with respect to food staples. A gradual elimination of price controls on non-subsidized, non-strategic commodities would encourage more U.S. exports into Jordan.

Taxes on imports are the chief source of domestic revenue. The government collects import taxes and custom duties on all imports, excluding industrial raw materials and machinery. 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 imported and locally-made products. It will be replaced by a general sales tax in 1994, paving the way for a VAT, scheduled for 1996.

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

Following successful negotiations with the Paris Club in July 1993, Jordan was able to postpone a $200 million payment due in July 1993, reschedule a $450 million payment due in December 1993 and qualify for an $85 million energy loan disbursible before the end of 1993. This flexible arrangement came after the Jordanian government complied with IMF requirements by increasing the coverage of the consumption tax system, amending energy rates and gasoline prices early in 1993, increasing civil servants' salaries and wages and decreasing current expenditures by five percent. A new agreement was postponed, thus allowing Jordan an additional six-month period on the old 18-month agreement which was to expire in June, 1993. Jordan and the Paris Club should resume discussions on new debt rescheduling arrangement after February 1994, if Jordan and the IMF successfully conclude a follow-on program. However, Jordan is actively seeking debt relief from

the international community, particularly from the United States, before it goes to the Paris Club at that time.

The Government of Jordan finalized negotiations with commercial creditors of the London Club in December, 1993. Jordan and the 80 members of the London Club reached an agreement to re-schedule $895 million, including $750 million in capital and $150 million in interest. London Club creditors had a choice of selling up to 35 percent of the principal with a discount of 35 percent and collecting 50 percent of the outstanding interest. The rest of the principal (65 percent) would be converted into 30-year par-value bonds guaranteed by 30-year U.S. zero bonds option coupons. Under this option, ten percent of the outstanding interest would be paid immediately and the rest would be converted into 12-year dollar bonds payable in 19 semi-annual installments after a three-year grace period.

Jordan's external debts as of July, 1993 stood at 5.203 billion dinars (Approximately $7.6 billion). Out of this total, the share of debts owed to major industrial countries is 51 percent, broken down as follows: Japan (17.4 percent), United States (9 percent), France (eight percent), United Kingdom (7.3 percent) and Germany (4.8 percent).

5. Significant Barriers to U.S. Exports

Investment Barriers: There are no restriction 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. However, foreign investments require prior approval by the Council of Ministers.

Government Procurement Practices: The General Supplies Department's regulations were amended in 1993 allowing more decentralization of purchasing procedures within the department. 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 agents. There are no legal statutes in Jordan's procurement law which support 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 and the General Supplies Departments, the ultimate right to accept or reject any bid and withhold information on rejection decisions. There is a process for appeal in Jordan, but the foreign bidder or supplier must conduct a protest within the domain of the Jordanian legal system.

Customs Procedures: Customs procedures in Jordan have historically been a major impediment to free trade. Overlapping areas of authority and excessive signature clearances on paperwork of shipments remain unchanged. Actual commodity appraisal and tariff assessment practices differ from the written regulations. Customs officers make discretionary decisions about certain cases which are subject to conflicting instructions and regulations.

Jordan's customs law will be amended in 1994 for the first time since its issuance in 1983. The amendment provides the Customs Department with more powers on violations and confiscations and delegates part of the Minister of Finance's powers to the director general of the Customs Department. 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 310 percent. To stimulate export production, import tariffs are low on many raw materials, machinery and semi-finished goods. To secure tariff exemptions, businessmen must document that the raw materials to be imported will be used in export production, maintaining at least 40 percent Jordanian value-added content. The Director General of Customs may grant temporary admission status to certain goods such as heavy machinery and equipment used for executing of government projects or important projects which have government approval. Foreign construction companies operating alone or with a Jordanian partner can apply for this temporary admission status.

6. Export Subsidies Policies

A recent government measure exempted 70 percent of the profits earned from export income from corporate income tax, with a maximum exemption of 30 percent of total income. Excluded are exports under bilateral trade protocols and phosphate, potash and fertilizer exports. Jordan's Finance Minister announced that this measure is intended to combat unemployment by encouraging industrial project expansion and new industrial export investments.

In March 1993, the Governor of Jordan's central bank announced new export financing measures, including the following: 1) Interest rates on advances were reduced to 6 percent, down from 11 percent; 2) The value-added criteria on local content, as a requirement for financing, was reduced from 40 percent to 25 percent; 3) Export advances were excluded from the credit facilities accounts; 4) Long-term export financing will be offered by the Central Bank of Jordan for up to five years; and 5) The Industrial Development Bank (IDB) will offer export financing loans on machinery imports up to five years at no more than 8.5 percent interest.

7. Protection of U.S. Intellectual Property

Jordan is a member of the World Intellectual Property Organization and is party to the Paris Convention for the Protection of Industrial Property. Jordan's copyright law, passed by Parliament in 1992, is the only up-to-date law or regulation dealing with the protection of foreign intellectual property. The Trademarks Law and Patents and Designs Law have not been amended since the early 1960's. Only the intellectual property of Jordanian authors and foreign authors who register their works inside the Kingdom are protected by the Copyright Law. Infringement of U.S. intellectual property rights is not subject to any penalties, particularly if these rights are not registered in Jordan and do not fall under any reciprocity agreement on copyright protection that binds the Kingdom as a signatory.

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, and 3) distribute or publicly communicate copies of the work. Royalties may be remitted under licensing agreements approved by the Ministry of Industry and Trade.

Patents (product and process) must be registered at the Ministry of Industry and Trade to receive protection. A foreign company may register patents by sending a power of attorney 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.

Copyright: Piracy of audio and video tapes for commercial purposes is a widespread practice, over which the government exercises no control. For a small fee, a customer can rent or buy copies of a wide selection of popular U.S. films. Pirated books are also sold in Jordan, but there is no indication that the books are actually being reproduced within the country. The government announced that strict regulations on copyright protection will be issued in January 1994.

New Technologies. There are many vendors in Jordan engaging in technological fields, such as software, integrated circuits, semiconductor chips, broadcast satellite signals, and biotechnology. Computer software piracy is rampant in Jordan's small, but growing computer market. Jordan has announced that it will give priority to protecting computer software.

There is no agreement between the United States and Jordan concerning the protection of U.S. intellectual property. Although the impact of this lack of protection cannot be estimated, it is probably not severe enough to cause lost export or investment opportunities to U.S. firms.

8. Worker Rights

a. *The Right of Association.*—While Jordanians are free to join labor unions, only about 10 percent of the work force is unionized. Unions represent their membership in such areas as wages, working conditions and worker layoffs. Nineteen unions comprise the Jordan Federation of trade Unions (JFTU). The JFTU actively participates in international organizations such as the International Labor Organization.

b. *The Right to Organize and Bargain Collectively.*—JFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, 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 two weeks after receiving a union complaint, the union may strike. Union-employer-government relations are generally tranquil, so arbitration is rarely required.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is forbidden by the Jordanian constitution and is not practiced.

d. *Minimum Age for Employment of Children.*—Children under age 16 are not permitted to work except in the case of professional apprentices, who may 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 cover 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 Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		5
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
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

KUWAIT

Key Economic Indicators

[Millions of Kuwaiti dinars (KD) unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (pct.)	−39.3	99.9	N/A
GDP (at current prices)	3,184	6,367	4,200
By Sector:			
Oil Sector	447.5	2,719	1,452
Non-oil sector	2,300	N/A	N/A
Net Exports of Goods and Services	−804	N/A	N/A
Real Per Capita GDP (KD)	2,170	4,245	N/A
Labor Force (000's)	450	600	608
Unemployment Rate (pct.)	(2)	0.5	0.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	−3.6	−61.2	2.4
Base interest Rate (pct.)	7.5	7.5	6.0

Key Economic Indicators—Continued

[Millions of Kuwaiti dinars (KD) unless otherwise noted]

	1991	1992	1993[1]
Personal Savings Rate (pct.)	N/A	N/A	N/A
Retail Inflation	9.5	5.0	8.00
Wholesale Inflation	N/A	N/A	N/A
Exchange Rate (KD/$)	0.289	0.294	0.304
Trade and Balance of Payments (millions of U.S. dollars):			
Total Exports (FOB)	755	6,693	5,029
Exports to U.S. (FOB)	40	285	1,700
Total Imports (CIF)	4,682	8,830	2,803
Imports from U.S. (CIF)	1,230	1,700	920
Aid from U.S	0	0	0
Aid from Other Countries	0	0	0
External Public Debt[2]	5,500	5,500	5,500
Debt Service Payments	N/A	300	300
Gold and FOREX Reserves	3,179	2,771	4,077
Trade Balance	−3,823	−795	1,709
Balance with U.S	−1,190	−1,415	780

N/A—Not available.

[1] Estimated.

[2] Nil.

Note.—These statistics are based on Central Bank data, NAT of Kuwait data, and U.S. embassy estimates. Data in Kuwait during the War and post-war period are subject to large omissions and errors. Consequently, data should be used with care. Revised data for the 1990–93 period should be finalized by mid-1995.

1. General Policy Framework

Kuwait has a small and relatively open, oil-rich economy. Pre-war Kuwait's population was 2.3 Million. Its current population is almost 1.5 million, of whom approximately 600,000 are Kuwait citizens. Kuwait's proven crude oil reserves amount to approximately 94 billion barrels; i.e., ten percent of total world reserves, making Kuwait, potentially, a very rich nation well into the next century.

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 Iraqi invasion left 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 Kuwaiti budget for FY 93/94 passed the National Assembly which was elected in October, 1992. It is the first budget for post-liberation Kuwait that has been subjected to "outside" scrutiny and approval. The budget will be in deficit by over one billion Kuwaiti dinars (or $3.29 billion). Oil accounts for almost 90 percent of revenues. A "difficult debts" law also passed the National Assembly. This law may clear out the "debt overhang" that has been a drag on the domestic economy.

Government salaries, the housing program and rebuilding of the infrastructure are major expenditure items. Overall defense expenditures are not included in this budget.

The recovery in Kuwait should be somewhat stronger and broader in 1994 than in 1993. For 1993, GDP should be in the region of $18 billion, before increasing in 1994 to slightly more than $20 billion, largely on the strength of increased oil production.

Kuwait's consumer sector has experienced a number of divergent trends in the post liberation period. Initially, business boomed as businesses and private consumers purchased goods to replace property destroyed, damaged or stolen by the Iraqi occupiers. This created a huge and atypical demand bulge which foreign suppliers, chiefly from the U.S., supplied. Business was good and prices were secondary considerations to speed of delivery and quality factors. This trade boom petered out in late 1991.

The decline in the consumer sector continues. Damaged goods have been replaced, starting a product replacement cycle that will not see replacement sales return to prewar levels for a number of years. In the automotive sector, a recent survey shows new car sales are now below pre-war levels and are predicted to remain depressed until late 1994 and early 1995. Demand will be below 1988 sales levels in 1993 and 1994.

For consumer electronics, the story is much the same. Sales have dropped below 1988 levels and are expected to drop to less than 75 percent of 1988 levels in the 1994 sales year. In electronics, new high quality equipment means that replacement cycles may be even longer than the three years assumed for automobiles.

Retailers are very aware of profound population shifts within Kuwait. The current population is estimated at 1.49 million (43 percent Kuwaiti), down from the pre-war population of 2.3 million. Over 300,000 middle class consumers are gone, replaced by lower paid workers who are often here on "bachelor" status. These "bachelors" in lower income groups seek to minimize their in-country expenditures in order to maximize their transfer payments back to their families in their home country. This means that less is spent in aggregate on mid- to high-quality consumer goods here.

2. Exchange Rate Policies

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 worth noting about the government's structural policies in Kuwait. First, 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, for instance, generally specify local products, when available, and prescribe a ten 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 stringent visa requirements, special taxes and fees that are intended to both discourage their employment and limit their tenure in Kuwait.

Secondly, 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 motor gasoline are relatively inexpensive. Basic foods are subsidized. Local telephone calls are free (after payment of an annual subscription fee), as is education and medical care. In most cases, these subsidies are available to all residents of Kuwait; in some cases, however—the so-called "first line commodities"—the subsidies are reserved for citizens of Kuwait.

Finally, and perhaps most importantly of all, some major aspects of this system of preference and privilege may be under scrutiny. The budget deficit in the 1993/94 budget has led to calls for reduced subsidies, increased fees and possible taxes on Kuwaitis and expatriates. In addition, the IMF has done a study on the Kuwaiti budget and deficits while the World Bank has prepared a report on privatization. The deficit, reductions in subsidies and privatization will be the subject of debate in the National Assembly's next session.

4. Debt Management Policy

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio, under the auspices of the Kuwait investment authority, that was variously valued at between $80–100 billion. All of

this changed with the war when major expenditures on defense, reconstruction and aid severely depleted the government's resources. Altogether, Kuwait appears to have run a fiscal deficit that may be as high as $70 billion over fiscal years 1990/91 and 1991/92, half of which was apparently financed through the sale of assets. The balance was covered by a domestic bond issue (worth 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 Kuwait's combined foreign and domestic government debt to $38–40 billion.

Looking ahead, it now appears likely that the Government of Kuwait will run budget deficits for the next three to five years, despite rising oil revenues.

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 does not permit the import of alcohol or pork from any country. It also participates in the Arab League primary boycott of Israel. Boycott questions involving U.S. firms should be referred to the U.S. Embassy in Kuwait or to responsible U.S. Government agencies in the U.S. Finally, Kuwait has a new offset program which will establish significant investment and/or counter-trade obligations for all foreign suppliers in the case of all government contracts in excess of KD 1.0 million ($3.29 million).

6. Export Subsidies Policies

Kuwait does not directly subsidize any exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Small amounts of vegetables are grown by farmers receiving government subsidies, and small amounts of these vegetables are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Intellectual property rights protection is extremely lax in Kuwait. Kuwait is not party to any worldwide 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 effectively irrelevant in deterring illegal activities. The patent law, moreover, excludes certain chemical inventions involving foods, pharmaceuticals and medicines, and offers a term of protection of 15 years, below the international standard of 20. It also contains extraordinary provisions for compulsory licensing whenever a patent is insufficiently used in Kuwait or is of "great importance to national industry".

Kuwait also has no copyright law, with the result that there is now a large, overt market for pirated software, cassettes and videotapes, as well as unauthorized Arabic translations of foreign language books. A new draft copyright law is under preparation by the Government of Kuwait; however, that law may still 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. *The Right of Association.*—Workers with Kuwaiti nationality have the right to establish and join unions and, after liberation, about 28,400 workers in Kuwait were organized as union members. New unions must have at least 100 members, 15 of whom must be Kuwaiti. The Minister of the Interior must certify that he has no objection to any founding member of the union. 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 non-voting members. In practice, however, foreign workers can join unions after one year. In addition, Kuwaiti law forbids the establishment of more than one union per "functional area" or more than one general confederation.

b. *The 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.

Unions are prohibited from involvement in domestic political, religious or sectarian issues.

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." Nonetheless, there continue to be credible reports that foreign nationals employed as domestic servants have been denied exit visas if they seek them without their employer's consent. In many cases, employers exercise some control over their servants by holding their passports, although the government prohibits this practice and has acted to retrieve passports of maids involved in disputes.

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 applies to Kuwaitis and expatriates. This law is not fully observed in the non-industrial sector. Some small businessmen employ their own children on a part time basis and there have been unconfirmed reports that some South Asian domestic servants are under 18.

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 40-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.

The Ministry of Social Affairs and Labor is responsible for enforcing labor laws. However, while compliance and enforcement of those laws appears to have been poor in the immediate post-liberation period, especially with respect to unskilled foreign laborers. There has been a gradual improvement as things in Kuwait have returned to normal. Foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse. Domestic servants, for example, are entirely excluded from the purview of Kuwait's labor laws and frequently work long hours greatly in excess of 48 hours. Domestic servants from Asian countries have complained about lack of assistance from their embassies in some cases. In other cases, embassies have founded shelters for abused domestics and have worked with the Government of Kuwait to repatriate groups of workers who have desired to return home.

f. *Rights in Sectors With U.S. Investment.*—The only significant U.S. investment in Kuwait is in the divided zone between Kuwait and Saudi Arabia, where one U.S. oil company, working under a Saudi concession, operates under and in full compliance with the Kuwaiti labor law that applies to the oil sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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
Banking		(1)
Finance and Insurance		0
Services		(1)
Other Industries		4

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	(1)

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

MOROCCO

Key Economic Indicators

[Billions of dirhams (Dh) unless otherwise noted]

	1991	1992	1993[1]
Income, Production and Employment:			
GDP (current dirhams)	240.8	245.6	263.1
GDP (1980 dirhams)	113.5	110.1	112.3
Real GDP growth (pct.)	5.1	-3.0	2.0
GDP by Sector:			
Agriculture and Fisheries	45.5	35.3	N/A
Mining	4.6	4.4	N/A
Energy and Water	15.5	17.0	N/A
Manufacturing	43.0	46.3	N/A
Construction	12.2	12.5	N/A
Commerce	49.9	54.4	N/A
Other Services	26.8	28.5	N/A
Transport and Communications	14.9	16.5	N/A
Government	28.5	30.6	N/A
Per Capita Income (Dh)	9,632	9,594	10,081
Labor Force (million)[2]	4.1	4.1	4.3
Unemployment (pct.)[2]	17.3	16.0	N/A
Money and Prices:			
Money (M2, pct. change)	16.8	9.3	7.4
Interest Rate[3]	10.9	11.7	11.6
Savings Rate (pct. GDP)	21.8	22.8	N/A
Investment Rate (pct. GDP)	22.9	23.8	N/A
CPI (pct. change)[4]	8.2	4.9	4.5
WPI (pct. change)[4]	6.4	2.8	4.7
Exchange Rate (Dh/$)[4]	8.7	8.5	9.2
Balance of Payments and Trade:			
Total Exports (FOB)	37.3	34.0	32.5
Exports to U.S	0.9	1.3	N/A
Total Imports (CIF)	59.7	62.8	60.9
Imports from U.S	3.5	3.7	N/A
Aid from U.S. ($ mil.)[5]	137.8	123.7	116.1
External Publ. Debt ($ bil.)	21.1	21.3	N/A
Debt Service Payments($ bil.)	2.4	2.6	N/A
Forex Reserves ($ bil.)	3.4	3.6	3.7
Trade Balance	-22.4	-28.8	-28.4
Balance with U.S	-2.6	-2.4	N/A
Current Account Balance	-3.6	4.0	N/A

N/A—Not available.
[1] Projections based on data available in October 1993.
[2] Urban.
[3] Avg. on bank deposits.
[4] Annual avg.
[5] Fiscal year.

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 clothing) are becoming increasingly important. Although not included in the trade statistics, exports of cannabis are believed to be considerable.

Morocco has pursued an economic reform program supported by the International Monetary Fund (IMF) and World Bank since the early 1980s. Reforms under the program included replacing quantitative import restrictions with tariffs, reducing the overall level of protection, liberalizing the foreign exchange regime and improving the climate for foreign investment. The generally positive effects of the reform program are currently overshadowed by a two-year drought and the recession in Morocco's principal European markets.

The government has steadily reduced its fiscal deficit in recent years. The 1992 budget called for a fiscal deficit equal to 0.8 percent of GDP, as compared to 3.1 percent the year before and 12 percent in 1982. However, the economic slowdown, due largely to the effects of a drought, resulted in a 1992 fiscal deficit equal to about 1.7 percent of GDP. Similarly the 1993 budget projected a deficit of around 1.0 percent of GDP, but the actual deficit will probably be over 2 percent of GDP due to the continued drought and weak economies in Morocco's principal European export markets.

The Central Bank succeeded in stemming the rapid growth of money supply resulting from the simultaneous replacement of quantitative credit controls with indirect controls and increased foreign exchange inflows associated with the Gulf War. It increased the reserve requirement several times in late 1991 and in 1992. In October 1992 it reduced the reserve requirement from 25 to 10 percent, but required the reserves thus freed to be put into seven-year treasury bonds. The growth in the money supply (M2) fell from 16.8 percent in 1991 to 9.3 percent in 1992, and is expected to be under eight percent in 1993. Real interest rates remain high; The rate on bank loans exceeds 14 percent, as compared to an inflation rate of around 5 percent.

2. Exchange Rate Policies

The Moroccan government has made the dirham convertible for an increasing number of transactions over the last few years. As of February 1993 the dirham is convertible for all current transactions (as defined by the IMF's article VIII) and some capital transactions, including capital repatriation by foreign investors. Foreign exchange is routinely available through the commercial banks for such transactions on presentation of documents. In mid-1993 the Central Bank lifted restrictions on Moroccan companies borrowing abroad.

The Moroccan monetary authorities set the rate of the dirham against a basket of currencies of Morocco's principal trading partners. There are no parallel or multiple rates. The dirham rate against the dollar reflects the rate between the dollar and the other currencies in the basket. The changes in the dollar exchange rate against other major currencies are therefore reflected in the dollar's rate against the dirham.

3. Structural Policies

Morocco gradually reduced barriers to trade over the last decade, although the level of protection remains high. In recent years the government replaced quantitative restrictions (e.g. government monopolies and import licenses) with tariffs for all but a few goods, notably foodstuffs and textiles. In 1993 the government increased the tariffs on meat and dairy products to between 100 to 365 percent in preparation for the elimination of the import license requirement for those products. The new tariffs are designed to provide initially the same level of protection as the license requirements and are scheduled to be gradually reduced. Quantitative restrictions on cereals, sugar and edible oils are scheduled to be replaced by additional duties in 1994. The maximum tariff rate on other goods was recently reduced from 40 percent to 35 percent. There is also a 12.5 percent surtax on all imports.

The Moroccan government has made significant structural changes in the financial system over the last few years. Credit ceilings were replaced with indirect controls through interest rates and the treasury began to pay market interest rates for new debt issues through treasury auctions. Interest rates on deposits were deregulated but lending rates were subject to a ceiling based on a reference rate determined by the average rate paid on short term deposits. In 1993 the ceiling on lending rates was changed from a one third mark-up over the reference rate to a 2.5 percentage point mark-up, effectively reducing the interest rate spread by about 1.5

percentage points. The government began enforcing new capital ratios for banks in early 1993 which had the effect of reducing the ability of banks to provide credit.

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 type and location of investment.

The Moroccan government began its privatization program in earnest in 1993 with the sale of some of its interests in several companies. The 1989 privatization law calls for the government to privatize a total of 112 firms by the end of 1995.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily in recent years. Debt service payments before rescheduling, as a share of goods and services exports, have fallen from over 50 percent in 1989 to about 30 percent in 1992, which is roughly what actual rescheduled debt service payments have averaged. Accordingly, the Moroccan government does not plan further Paris Club rescheduling. The discount on Moroccan debt in the secondary market declined sharply in 1993. In late 1993 the Finance Ministry established a framework for debt/equity conversions designed to reduce the outstanding debt burden and to encourage foreign investment.

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

Import Licenses: A new foreign trade act passed in 1991 (but not fully implemented as of late 1993) reverses a legal presumption of import protection, spelling out permissible grounds for exceptions to the general principle of free trade. It replaces quantitative restrictions (e.g. government monopolies and import licenses) on the importation of politically sensitive items such as cereals, oilseeds, milk and sugar with tariffs (both ad valorem and variable). The effect of the new law on U.S. exports will depend on implementing regulations setting the levies and specifying the goods that will remain subject to non-tariff barriers.

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. In 1993 the Moroccan government repealed the 1974 decree limiting foreign ownership in the petroleum refining and distribution sector. This was done in preparation for the privatization of the government's shares in several petroleum distribution companies that were nationalized in the 1970s.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law.

Investment Barriers: The Government of Morocco actively encourages foreign investment. The Investment Law contains separate sectoral codes covering industry, tourism, housing, maritime, mining, petroleum exploitation, and exports. These codes provide incentives equally to both 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, applicable to both domestic and foreign investors, are implemented only when an investor requests benefits under the applicable sector 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 party to the following conventions: Copyright—Bern, Universal, and Brussels Satellite; Industrial Property—Paris Union, Madrid Agreements on source and registration of trademarks, the Nice Agreement on trademark classification, and the Hague

Agreement on industrial design. Computer software is not specifically covered by Morocco's copyright law.

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: Counterfeiting of clothing, luggage, and other consumer goods is not uncommon. However, anti-counterfeiting measures have been increasingly enforced, with prosecutions being covered by the press. Counterfeiting is primarily for local consumption and sale to tourists rather than for export. Trademarks must also be filed in both Casablanca and Tangier.

8. Workers Rights

a. *The Right of Association.*—Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. Probably five percent of Morocco's 9 million workers are unionized, mostly in the public sector. The selection of union officers and the carrying out of their duties are sometimes subject to government pressure. Workers have the right to strike and do so. Most work stoppages are intended to advertise grievances and last 24 hours or less.

b. *The Right to Organize and Bargain Collectively.*—While the protection of the right to organize and bargain collectively exists in the constitution and labor law, the government does not always enforce the protections fully. Laws protecting collective bargaining are not highly developed, although an implied right is exercised. The multiplicity of trade union federations creates competition to organize workers. A single factory may contain several independent locals. Labor laws are observed most often in the corporate and parastatal sectors of the economy. In the informal economy, labor regulations are routinely ignored. As a practical matter, the unions in Morocco have no judicial recourse to oblige the government to act when it has not met its obligations under the law.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not practiced in Morocco.

d. *Minimum Age for Employment of Children.*—Children may not 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 handicraft work. The use of minors is common in the rug-making and tanning industries. Children are also employed informally as domestics and usually receive little or no wages. Child labor laws are generally well-observed in the industrialized, unionized sector of the economy.

e. *Acceptable Conditions of Work.*—There was no change in 1993 to the minimum wage of 1350 dirhams per month (about $150). The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly effectively throughout the industrialized, unionized sector where most workers, except for those employed in garment assembly, earn more than minimum wage. Moreover, workers are customarily paid between 13 and 16 months' salary for every 12-month year. The law provides a 48-hour maximum work week, 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.*—Worker rights in sectors with U.S. investment do not differ from those described above in the formal, industrial sector of the Moroccan economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	25	
Chemicals and Allied Products	8	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		4
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		76

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

OMAN

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted] [1]

	1991	1992	1993 [2]
Income, Production, and Employment:			
Real GDP (1988 prices)	8,563.1	9,337.6	N/A
Real GDP Growth (percent)	−9.0	9.0	N/A
GDP (at current prices)	10,233.2	11,485.0	11,887.0
By Sector:			
Petroleum	4,311.8	4,800.3	4,610.0
Agriculture & Fishing	374.1	367.8	N/A
Mining	27.8	32.5	23.0
Manufacturing	399.4	441.2	N/A
Oil refining	38.2	53.3	61.0
Construction	426.7	464.4	371.0
Electricity	87.6	95.4	N/A
Water	75.4	80.1	N/A
Wholesale/Retail Trade	1,338.0	1,520.5	1,737.0
Restaurants/Hotels	67.6	80.9	N/A
Transport/Communications	381.7	418.3	N/A
Financial Services	383.2	418.3	N/A
Real Estate	532.7	550.2	N/A
Government Services	1,740.7	2,008.5	2,071.0
Other Services	185.9	196.3	N/A
Import Duties	102.7	124.3	N/A
Less: Imputed Bank Services Charges	240.5	247.8	N/A
Real Per Capita GDP ('88 bps)	4,506.8	6,044.7	5,943.5
Labor Force (000's) [3]	429	530	N/A
Unemployment Rate (pct.)	N/A	N/A	2.59
Money and Prices (annual percentage growth):			
Money Supply (M2)	3,213.3	3,312.7	3,438.0
Base Interest Rate [4]	5.4	3.4	N/A
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (1988 base)	119.5	123.0	N/A
Exchange Rate $/Rial	2.60	2.60	2.60
Balance of Payments and Trade:			
Total Exports (FOB) [5]	4,870.0	5,553.6	5,348.0

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted] [1]

	1991	1992	1993 [2]
Exports to U.S	23.4	26.4	N/A
Total Imports (CIF) [5]	3,325.4	3,900	3,952.0
Imports from U.S	243.8	256.9	N/A
Aid from U.S	9.2	22.5	14.1
Aid from Other Countries	40.5	72.7	N/A
Gold and FOREX Reserves [6]	2,606.5	2,393.0	N/A
Trade Balance [5]	1,544.6	1,653.6	1,396.0
Balance with U.S	−218.4	−230.5	N/A

N/A—Not available.

[1] Timely statistics are not readily available in Oman. The government publishes few figures on its finances.

[2] 1993 Figures are all estimates based on monthly data available in October 1993. No current GDP figures are available for 1993.

[3] Based on estimated population figures. Oman's first census is scheduled for December 1993.

[4] Weighted average interest rates on foreign currency lending.

[5] Merchandise trade.

[6] Gold and foreign currency are central bank reserves. State general fund figures are not available.

1. General Policy Framework

The Sultanate of Oman is a small nation of about 2.0 million people (450,000 expatriates) living in the arid mountains and desert plains of the eastern Arabian Peninsula. Oil production is the foundation of the economy. Oman produces an average of 700,000 barrels per day (b/d) of oil, about 650,000 of which is exported primarily to Asian markets. Oman is not a member of OPEC. Oman's principal oil producer is state-owned Petroleum Development Oman (PDO), although a few western firms produce a minority of Oman's oil through production-sharing agreements with PDO. Oman is a small producer, and its economy moves 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 just under $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. A corporate income tax has long been collected from companies which are not 100 percent Omani-owned. There is a corporate income tax applicable to Omani-owned firms which has not been implemented. In 1993, however, the government proposed a graduated system of taxes which would apply to Omani-owned companies. There is no personal income tax nor are there property taxes. The most significant sources of income besides oil royalties are the five 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 1992 government budget deficit stood at 35 percent of net government revenues, and was due to a 20.8 percent surge in government outlays, combined with continued weak oil prices, leaving government revenues lower than expected. The government financed the shortfall by a combination of drawing down reserves and issuing development bonds, which were first sold 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, with the possibility of an additional five-year holiday. 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 (GCC) states, are decreasing. The three-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 require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan-to-deposit ratios, treasury bills, rediscount policies, currency swaps, and interest

rate ceilings on deposits and loans. Such tools are, 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 currency means that U.S. exports to Oman remain competitive. Although there were recent rumors that Oman, under pressure from declining oil prices, would again devalue, Omani officials deny that there are any such plans. Officials also deny that Oman will impose capital controls.

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 yet taxed, giving them a clear advantage over companies with substantial foreign ownership. Nevertheless, the government has announced a proposal, not yet approved, to begin applying income taxes to Omani firms. New companies, regardless of ownership, are given a five-year tax exemption, with a possibility of an additional five years. 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. The proposal for taxing Omani-owned firms would exempt the first $78,000 of income from tax, tax the next $442,000 at five percent and tax income over $520,000 at a rate of 7.5 percent.

4. Debt Management Policies

Oman's sovereign debt of $2.9 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. Recently, modest aid packages have gone to Somalia, Bosnia and Lebanon.

5. Significant Barriers to U.S. Exports

A license is required for all imports into 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. Generally, GCC standards are adopted and used. However, 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" work forces 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 ten 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 enforcement 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 (GATT).

7. Protection of U.S. Intellectual Property

Oman passed a trademark law in 1987, which the government enforces actively. Official registrations of trademarks appear in most issues of the Official Gazette. 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 (IPR) delegation visited Oman in May 1992. During the talks, Omani officials tentatively acknowledged the need to draft patent and copyright laws and expressed an interest in examining the process. Drafts of these laws are now being circulated through the Omani government. There has been discussion of a U.S.-Oman IPR agreement, but Oman may prefer to negotiate through the Gulf Cooperation Council. Oman is considering joining the World Intellectual Property Organization and has received its technical assistance in drafting IPR laws.

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 IPR protection. The local audio and video cassette markets are comprised almost exclusively of pirated copies. Nevertheless, there are signs that domestic 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 also available on the local market. Oman's market in all of these areas is quite small, and major customers buy only original computer equipment.

8. Worker Rights

a. *The Right of Association.*—Omani labor law does not anticipate or address the formation of labor unions. Oman's labor law specifies that "it is absolutely forbidden to provoke a strike for any reason." Oman is not a member of the International Labor Organization but recently announced its intention to join. Oman is currently rewriting its labor law and may address some of these issues.

In 1992 the AFL–CIO filed a petition to remove GSP benefits from Oman for failure to provide internationally recognized worker rights. The review has been extended through the end of the 1993/94 review cycle.

b. *The Right to Organize and Bargain Collectively.*—There are no provisions for collective bargaining for wages and working conditions in Oman. The 1973 Labor Law (as amended) imposes a statutory obligation on employers with over 50 employees to propose the creation of a representative body of worker and management representatives and to relay to the Ministry of Labor and Social Affairs the proposed constitution for the body. Wages are set by employers within guidelines established by the Ministry. The Labor Law is a comprehensive document defining conditions of employment for both Omanis and foreign workers, who constitute 50 percent of the work force. Work rules must be approved by the Ministry and posted conspicuously in the work place. Any employee, Omani or expatriate, may file a grievance with the Labor Welfare Board. The 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 Labor and Social Affairs for decision.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law.

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 and more than 90% of eligible school age children enter primary school.

e. *Acceptable Conditions of Work.*—The Labor Law allows the government to set minimum wage guidelines. These guidelines do not cover domestic servants, farmers, government employees, or workers in small businesses, categories with many foreign workers. The minimum wage is sufficient to provide an Omani worker in the capital area with a decent living with something left over for rural relatives. The same applies to the expatriate manual laborers or clerks who, likewise, send money home. The private sector workweek is 40 to 45 hours (less for Muslims during Ramadan). The workweek is five days in the public sector and generally five and a half days in the private sector. Every worker has the right to 15 days of annual leave during the first three years of employment and 30 days per year thereafter. Employers provide many expatriates with annual or biannual round-trip tickets to their countries of origin. 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 and conditions of work are effectively and uniformly enforced by inspectors throughout the country.

f. *Rights in Sectors With U.S. Investment—Petroleum.*—Oman's petroleum sector is the only part of its economy in which U.S. investment is more than minimal. U.S. participation in other sectors is only as a contracted supplier of goods and services. In the oil sector, U.S. firms strictly adhere to Omani labor law and have considerable success in employing Omanis and providing a safe working environment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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
Banking		(1)
Finance and Insurance		0
Services		3
Other Industries		-1
TOTAL ALL INDUSTRIES		(1)

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

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

SAUDI ARABIA

Key Economic Indicators

[Billions of Saudi riyals unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)	427.55	439.95 4	44.35
Real GDP Growth (percent)	9.7	2.9	1.0
GDP (at current prices)[2]	431.92	453.51	464.85
By Sector:			
Oil	160.33	168.24	169.92
Private sector	150.57	159.65	167.63
Government	121.02	125.62	127.30
Real Per Capita GDP[3]	26,410	26,790	26,530
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	16.6	5.5	8.2
Base Interest Rate[5]	5.7	3.5	3.0
Wholesale Inflation[4]	3.0	1.3	0.6
Consumer Price Index[4]	4.6	−0.4	2.0
Exchange Rate (SR/$)	3.75	3.75	3.75
Balance of Payments and Trade (billion U.S. dollars):			
Total Exports (FOB)	47.6	42.8	42.0
Exports to U.S. (FAS)[4]	10.9	11.3	5.2
Total Imports (FOB)	26.0	29.8	25.3
Imports from U.S[4]	6.5	7.2	3.8
Aid from U.S	0.0	0.0	0.0
Aid from Other Countries	0.0	0.0	0.0
External Government Debt	4.5	4.5	4.5
Debt service payments (paid)	0.0	0.0	N/A
Gold and FOREX Reserves	10.0	4.8	5.1
Trade balance	21.6	13.0	16.7
Trade balance with U.S.[4]	4.4	4.2	1.4

N/A—Not available.

[1] Embassy estimates.
[2] In purchasers' values.
[3] Based on the official 1992 census data and current GDP.
[4] For 1993, data for the first half of the year.
[5] Average annual rate for 1-month deposits, 1993 average for first half of the year.

1. General Policy Framework

Saudi Arabia has an open, developing economy with a dominant government sector. Its regulations favor Saudis and citizens of the Gulf Cooperation Council (GCC) states. This bias is reflected in virtually all government policies, including those affecting taxation, credit, investment, procurement, trade, intellectual property, and labor. But the government's interest in promoting economic development, defense and the technological advancement of the economy ensure that the favoritism toward Saudis and the GCC does not seriously block the participation in the domestic economy by foreign investors.

Oil dominates the Saudi economy, comprising an estimated 37 percent of GDP, 77 percent of budget receipts, and 90 percent of exports in 1992. Much of the non-oil GDP is tied to oil as services and supplies are sold to the oil sector and consumption and investment are dependent on oil receipts. The government sector plays a significant role in influencing resource allocation within the Saudi economy. Allocation limitations are restricted, however, because the government has chosen to maintain spending levels of key areas of defense, salaries, direct subsidy payments, and foreign assistance. Non-oil budget revenues include customs duties, interest income, and fees and charges for services.

The Government of Saudi Arabia has recorded budget deficits annually for the last decade, with the shortfall for 1992 estimated at more than $10.5 billion (or nine percent of GDP). The government originally financed its fiscal shortfalls by drawing down deposits in the Saudi Arabian Monetary Agency (SAMA), the country's

Central Bank, and began borrowing in 1988 to conserve its remaining assets. Defense and security account for nearly one-third of all expenditures, and the government also makes large outlays for salaries, capital projects, services, and operations and maintenance programs. The government foregoes a potentially significant amount of budgetary income because it subsidizes prices for water, energy, housing, and gasoline and free education and health care.

SAMA allows the growth of money supply to be dictated by government fiscal operations and the growth of the economy. 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 for the banks. It is also able to conduct open market operations through repurchases of Saudi government development bonds and treasury bills. SAMA oversees a financial sector of 12 commercial banks, five specialized credit banks, and a variety of non-bank financial institutions.

2. Exchange Rate Policy

The Saudi riyal (SR) is officially pegged to the IMF's Special Drawing Right (SDR) at a rate of SR 4.28255 = 1 SDR, with margins of 7.25 percent on either side of the parity. SAMA suspended the margins in 1981 and in practice pegs the riyal to the U.S. dollar. Saudi Arabia last devalued the riyal in June 1986 when it set the official selling rate at SR 3.75 = $1.00. There are no taxes or subsidies on purchases or sales of foreign exchange.

Saudi Arabia imposes no foreign exchange controls on capital receipts or payments by residents or nonresidents, beyond a prohibition against transactions with Israel and South Africa. In accordance with UN resolutions, the prohibition has been expanded to include transactions with Iraq and Yugoslavia. Local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions inside or outside Saudi Arabia without prior approval of the Saudi Arabian Monetary Agency. The monetary authorities and all residents may freely and without license buy, hold, sell, import, and export gold, with the exception of gold of 14 karat or less, which is prohibited.

3. Structural Policies

The Saudi Government has traditionally eschewed price controls, with the exception of those for basic utilities, energy and agricultural products. Water, electricity, and petroleum products are heavily subsidized, with prices often substantially below the costs of production in order to share the wealth and spur development. In agriculture, government procurement prices for wheat (now $400 and $533.3 per ton to large and small farmers, respectively) are substantially above world market levels. The government is adjusting agricultural policies in an attempt to reduce wheat production and encourage crop diversification. Farmers must now have prior government approval to produce and sell wheat at the support price, and the government is no longer encouraging the establishment of new wheat farms.

Saudi taxes take three major forms: income taxes, fees and licenses, and customs duties. The income tax is payable only by foreign companies and self-employed expatriates. The income tax rate on business income on foreign companies and expatriate shareholders of Saudi firms ranges from 25 percent on profits of less than SR 100,000 to a maximum rate of 45 percent for profits above SR 1,000,000. Foreign investors receive tax incentives, including a ten-year tax holiday for approved agricultural and manufacturing projects with a minimum of 25 percent Saudi participation. Saudi and Muslim residents are subject to the "Zakat," an Islamic net worth tax levied at the flat rate of 2.5 percent.

Import tariffs are levied at a general minimum rate on 12 percent ad valorem, except for products originating in Gulf Cooperation Council states and essential commodities. There is also a maximum 20 percent tariff on products that compete with local infant industries.

4. Debt Management Policies

The country of Saudi Arabia is a net creditor in world financial markets. SAMA manages a foreign portfolio of over $50 billion in its issue and banking departments and an additional $20 billion for the autonomous government institutions: the Pension Fund, the Saudi Fund for Development, and the General Organization of Social Insurance. Under SAMA's current conservative definitions, only about 10 to 15 billion dollars of these foreign assets are available as the remainder are earmarked to guarantee the currency or letters of credit. In addition to the overseas assets managed by SAMA, Saudi Arabia's commercial banking system managed 28 billion dollars in foreign assets at the end of 1992. The Saudi government's foreign debt is limited to a $4.5 billion syndicated loan signed in 1991, although the domestic banks, Saudi Aramco, and other state-owned enterprises have overseas obligations.

Saudi Arabia has become dependent on borrowing to finance its budget deficits after having liquidated much of the government's deposits in SAMA. The Saudi government began direct borrowing in 1988 through a domestic government development bond program. The bonds have a two- to five-year maturity. In 1991, following the Gulf War, the Saudi government expanded its borrowing when it signed loan syndications with international and domestic banks and introduced Treasury bills. By the end of 1992, total Saudi government debt was an estimated 66.89 billion dollars, or 55 percent of GDP. Over 90 percent of this debt is owed to domestic creditors: the autonomous government institutions, commercial banks, and private Saudis. Total interest payments on the debt were estimated at seven percent of government expenditures in 1992.

5. Significant Barriers to U.S. Exports

Although the United States is the Kingdom's largest supplier and investor, trade and investment barriers appear in a variety of forms. The Foreign Capital Investment Code requires that foreign investment be made in line with the nation's development priorities and that they include some technology transfer. While there are no legal limitations on percentage of foreign ownership, wholly foreign-owned ventures are unlikely to receive government approval. Limited liability companies cannot engage in banking or insurance with less than 51 percent Saudi ownership. Foreigners may not invest at all in joint ventures engaged solely in advertising, trading, distribution or marketing. Real estate ownership is restricted to wholly-owned Saudi entities or citizens of the Gulf Cooperation Council.

Saudi labor law requires companies registered in the Kingdom to give preference to Saudi nationals when hiring. A company wishing to import a foreign worker must show that no Saudi national can do the job. In fact, the expatriate work force in the Kingdom is approximately four million.

The Arab League Boycott of Israel constitutes a continuing impediment to trade and investment in the Kingdom. While Saudi Arabia has stopped enforcing many aspects of the boycott, it still maintains a blacklist of over 1,000 U.S. firms.

Import licensing requirements designed to protect domestic industries or restrict importing to nationals are another obstacle to free trade. Saudi Arabia requires a license to import agricultural products. In addition, contractors may not import directly and instead must purchase equipment and machinery from Saudi agents.

Restrictive shelf-life standards for food products act as de facto discrimination in favor of European and Asian products, which take less time to ship than products made in the United States.

In 1987, Saudi Arabia enacted regulations favoring GCC products in government purchasing. GCC items now receive up to a ten-percent price preference over non-GCC products. Under a 1983 decree, foreign contractors must subcontract 30 percent of the value of the contract, including support services, to majority Saudi-owned firms, a restriction which U.S. businessmen consider a serious barrier to exports of U.S. engineering and construction services. Saudi Arabia negotiates offset requirements in connection with certain military purchases and, recently, for some major civilian projects.

In addition, the government reserves certain services for government-owned companies (with important exceptions like Aramco). Insurance services for government agencies and contractors are reserved for the national company for cooperative insurance. A fly-Saudia (Saudia Airline) policy applies to government-funded air travel.

Saudi Arabia applies a fly-Saudia policy to foreign muslims traveling to the Kingdom to visit the holy city of Mecca during pilgrimage every year, as well. The government reserves a percentage of foreign pilgrim traffic for Saudia Airline, and enforces this policy by regulating the number of foreign carriers permitted to land during the pilgrimage period. Other carriers must pay Saudia a fixed percentage of the IATA fare for traffic. The government also gives a preference to national shipping companies: Up to 40 percent of governmental purchases must be shipped in Saudi bottoms.

Saudi customs rules require that incoming goods be accompanied by documentation certified by an approved Arab-U.S. Chamber of Commerce and the Saudi embassy or consulate in the United States. The latter requirement slows shipping, adds man-hours and fees, and ultimately increases the cost of the product to Saudi customers.

6. Export Subsidy Policies

Saudi Arabia has no export subsidy programs specifically targeted at industrial products, though many of its industrial incentive programs indirectly support exports. Agricultural export subsidies are discussed above.

7. Protection of U.S. Intellectual Property

The United States Trade Representative placed Saudi Arabia on the Special Section 301 Priority Watch List in 1993 mainly because the Kingdom's copyright law does not protect foreign works. The Saudi market is full of pirated cassettes, videos and computer software. Although a member of the World Intellectual Property Organization, the Kingdom does not belong to any major international intellectual property convention.

Saudi Arabia enacted a patent law in 1989. The criteria for determining whether an invention is patentable 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 allows the government to declare that certain areas of technology are unpatentable. It also permits compulsory licensing of patented products and processes, with or without compensation to the patent holder, for non-use of the patent or for public policy reasons. As of November 1993, the Saudi patent office had not yet acted on any of the 2,000 patent applications it had received.

The Kingdom's trademark laws and regulations conform to international norms, but U.S. businesses have complained of excessive registration and search fees, as well as problems with enforcement. Counterfeiting in spare auto parts, cologne, pharmaceuticals and other consumer products is widespread. Infringement proceedings can take years and cost tens of thousands of dollars. Moreover, many Saudi judges trained only in religious law are reportedly unsympathetic to trademark claims brought by foreigners.

The Kingdom's copyright law went into effect in 1990. The law provides protection for the life of the author plus 50 years in the case of books, and in the case of sound and audio visual works, for the life of the author plus 25 years. Computer programs are also covered, though the law does not specify a period of protection. The copyright law's major shortcoming, noted above, is that it does not protect works which were not created or first published in Saudi Arabia, thus effectively denying protection to U.S. literary and artistic works.

U.S. industry groups have estimated losses due to lack of copyright protection at over $110 million in 1992. When losses from trademark counterfeiting and patent infringement are included, this figure is substantially higher.

8. Worker Rights

a. *The Right of Association.*—Government decrees prohibit the formation of labor unions and strike activity. Men and Women may not associate outside of family contacts.

b. *The Right to Organize and Bargain Collectively.*—This right is not recognized in Saudi Arabia.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited in Saudi Arabia. However, since employers have control over the movement of foreigners in their employ, forced labor, while illegal, can occur, especially in remote areas where workers are unable to leave their places of employment.

d. *Minimum Age for Employment of Children.*—The labor law provides for a minimum age of 13, which may be waived by the Ministry of Labor with the consent of the child's guardian. Children under 18 and women may not be employed in hazardous or unhealthy industries such as mining. Wholly-owned family businesses and family-run agricultural enterprises are exempt from the minimum age rules, however.

e. *Acceptable Conditions of Work.*—Saudi Arabia has no minimum wage. The labor law establishes a 48-hour work week and allows employers to require up to 12 additional hours of overtime, paid at time and one-half. It also requires employers to protect employees from job related hazards and diseases.

f. *Rights in Sectors With U.S. Investment.*—Major U.S. companies operating in the oil, chemicals and financial services sectors are good corporate citizens and adhere strictly to Saudi labor law. Conditions of work at major U.S. firms are generally as good or better than those available elsewhere in the Saudi economy. U.S. firms normally work a five and one-half day week (44 hours) with paid overtime. Overall compensation tends to be at levels that make employment in U.S. firms very attractive. Safety and health standards in major U.S. firms in Saudi Arabia compare favorably with non-U.S. firms in Saudi Arabia.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		781
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	2	
Electric & Electronic Equipment	5	
Transportation Equipment	0	
Other Manufacturing	31	
Wholesale Trade		22
Banking		(1)
Finance and Insurance		(1)
Services		73
Other Industries		128
TOTAL ALL INDUSTRIES		2,503

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

SYRIA

Key Economic Indicators [1]

[Millions of U.S. dollars unless otherwise noted] [2]

	1991	1992 [3]	1993
Income Production and Employment:			
Real GDP (1985 prices)	8,704	9,313	10,018
Real GDP Growth (pct.)	7.8	7.0	7.6
GDP (at current prices)	27,286	33,286	40,609
By sector:			
Agriculture	1,703	1,875	2,063
Energy and Water	2,242	2,417	2,580
Manufacturing	464	491	509
Construction	214	241	250
Rents	N/A	N/A	N/A
Financial Services	357	366	375
Other Services	2,554	2,786	3,036
Government, Health and Education	1,107	1,142	1,205
Net Exports of Goods and Services	−836	N/A	N/A
Real Per Capita GDP ('85 BPS)	694	716	742
Labor Force (000's)	3,400	3,600	3,800
Unemployment Rate (pct.)	7.0	7.5	7.5
Money and Prices:			
Money Supply (M2) (million SP)	183,540	187,211	198,443
Base Interest Rate (pct.) [4]	9.0	9.0	9.0
Personal Saving Rate	4.8	4.8	4.8
Retail Inflation (pct.)	7.6	13.5	16.0
Wholesale Inflation (pct.)	15.0	17.0	20.0
Consumer Price Index	432	490	570
Exchange Rate (SP/$):			
Official	11.20	11.20	11.20
"Blended"	25.6	26.60	26.60
"Neighboring Country Rate"	40.00	42.00	42.00

Key Economic Indicators[1]—Continued

[Millions of U.S. dollars unless otherwise noted][2]

	1991	1992[3]	1993
Offshore market	42–47	46–52	47–53
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	3,432	3,080	3,400
Exports to U.S	25	46	125
Total Imports (CIF)	2,768	3,545	4,100
Imports from U.S	206	168	190
Aid from U.S	0	0	0
Aid from Other Countries	2,000	1,753	1,358
External Public Debt	16,800	18,000	19,400
Debt Service Payments (paid)	719	1,399	N/A
Foreign Exchange Reserves	N/A	N/A	N/A
Gold holdings (000's of troy ounces)	833	833	833
Trade Balance	664	−465	−700
Balance with U.S	−181	−122	−65

N/A—Not available

[1] The Syrian government has not published its 1992 statistics as of the completion of this report. Further, the government's 1991 economic statistics remain estimates. All figures in the preceding tables are estimates based on the government's 1991 estimates, other sources in the public domain, and this Embassy's own calculations.

[2] Millions of U.S. dollars converted at the Official Rate of 11.2 Syrian pounds/U.S. dollar. (In contrast, the "Neighboring Country" free market rate is 42 Syrian pounds/U.S. dollar.)

[3] Revised Estimate.

[4] 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 ten years.

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, and earned substantial financial rewards which have been allocated to rehabilitate the country's deteriorating infrastructure and to revitalize public sector enterprises, particularly in the electricity generation and telecommunications fields. These transfers amounted to over $1.7 billion in 1992 and over $1.3 billion in 1993. With this financing confirmed, Syrian government agencies issued a record number of tenders beginning in 1991.

Prospects for Syrian private sector investment and imports continue to improve, spurred by economic reforms, including a new investment law. Recent liberalization actions of the Syrian government permit private exporters to retain some foreign exchange export earnings to finance permitted imports for manufacturing inputs, as well as other listed products. The rate of retention depends on the type of products exported, and is 75 percent for industrial products and 100 percent for agricultural products. 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. In addition, an active "unofficial market" exists, in which a wide variety of difficult to obtain goods can be purchased. Prices in this market are dependent on the offshore foreign exchange rate and therefore reflect world price levels. During 1993 the government attempted to interdict many of the goods imported for this market, succeeding briefly in reducing supplies, but ultimately discontinuing the activity because of inadequate resources and strong public demand for such goods.

The United States imposed trade sanctions in 1979 as a response to Syria's involvement with terrorism. The U.S. government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technologies. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is ineligible for the Export Enhancement Program (EEP) and the Commodity Credit Corporation (CCC) program in all agricultural products, 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 suspended their programs in Syria, further disadvantaging U.S. exporters in meeting competition from other suppliers.

The Syrian government uses its annual budget as its principal tool for managing the economy. Through 1992, the Syrian government's ability to raise official prices on many consumer items (effectively reducing subsidies), improve tax collections, and increase transfers from state enterprises, while reducing commitments of Syrian resources to capital expenditures, enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the 1993 Budget saw a return to the government operating in the red, due to an anticipated decline in tax collections. In addition, Syria's maintenance of its large military establishment, both at home and in Lebanon, and its continued heavy subsidization of basic commodities and social services, place severe burdens on the economy.

Given Syria's anachronistic financial system and inability to access international capital markets, monetary policy remains a passive tool used almost exclusively to cover fiscal deficits. All four of the country's commercial banks are nationalized. Interest rates are fixed by law. Most rates have not changed in the last several years, even though current real interest rates are negative, exerting additional inflationary pressures in the economy.

2. Exchange Rate Policies

The Syrian government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian pounds/$1.00 for government, certain public sector transactions, and valuations for customs purposes. A second exchange rate, 26.6 SP/$1.00, called the "Blended Rate", can be used by the U.N. and diplomatic missions. A third rate, 42 SP/$1.00, the "Neighboring Country" rate, applies to most state enterprise imports except certain basic commodities and military/security items. Outside Syria, a thriving offshore market for Syrian pounds operates in Lebanon, Jordan, and the Arab Gulf countries. During 1993, the value of the pound fluctuated between SP 46 and 53 to the U.S. dollar in these locations. After the government implemented its anti-smuggling measures and sold some of its dollars in Lebanon in May 1993, the value of the pound rose to 46 SP/$1.00, but as the anti-smuggling campaign faded away, it depreciated to hover around 50 SP/ $1.00.

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, Syrian law required private exporters to surrender 100% of foreign exchange earnings to the Central Bank at the official rate. Now, private exporters may retain 75 to 100 percent of their export earnings in foreign exchange to finance imports of inputs and other items designated on a short list of basic commodities, surrendering the balance to the Commercial Bank of Syria, in most cases, at the "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria, may convert cash, travellers checks and personal remittances at the "Neighboring Country" 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 42 SP/$1.00 rate for the past two years. In prior years, prices on many items were computed at the over-valued official 11.2 SP/$1.00 rate, thereby creating the foreign exchange shortages which constrained official imports. In the agricultural sector, production of strategic crops (cotton, wheat) is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel, and 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 tariff system is highly escalated, 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. Understandably, 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 (i.e. most useful private sector economic activities). 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.

4. Debt Management Policies

Syrian authorities have been unwilling to provide data on non-civilian debt, as well as accumulated obligations under bilateral clearing arrangements. Guaranteed civilian debt is officially estimated at approximately $3.4 billion. A commercial publication placed Syria's total external public debt at $16.8 billion in 1991. Very little Syrian commercial debt is held by U.S. companies.

In 1992, the government established various committees 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. The government continues to manage its bilateral and multilateral debt by indefinite deferment. Syria suspended payments to the Russian Republic in 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. While Syria resumed payments to the World Bank in 1992, it once again suspended payments in 1993 because of the electricity crisis. Other creditor nations and institutions have also not received debt service payments.

5. Significant Barriers to U.S. Exports

Any product legally imported into Syria requires an import license, which is issued by the Ministry of Economy and Foreign Trade according to a policy aimed at conserving foreign exchange and promoting local production. Strict standards on labeling and product specifications are non-discriminatory and fairly enforced. Customs procedures are cumbersome and tedious because of complex regulations. In addition, duty rates are extremely high. These disincentives are mitigated by the application of the official rate of exchange to customs valuation of imports.

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 expiration 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 expiration 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 often be 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. anti-boycott 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 U.S. anti-boycott regulations before proceeding. One source of such advice is the U.S. Department of Commerce Office of Anti-boycott Compliance (telephone advice line (202) 482–2381).

Given the centralized structure of the economy, specific "buy national" laws do not exist. Strategic goods, military equipment, wheat, sugar, 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.

The government requires its approval for all foreign investments and continues to encourage joint-ventures with itself. Concessions and services must be explicitly negotiated. The number and position of foreign employees in a company are usually negotiated when the contract or agreement is signed. Land ownership laws are complex. In principle only Syrians may own land. The right to repatriation of capital is legally recognized. The new investment law provides for tax holidays and exemp-

tions on duties, as well as guarantees for the remission of profits. However, the law requires that repatriated foreign exchange be generated from export 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 serious barriers.

Government monopolies in banking, insurance, telecommunications, and other public sector service industries preclude foreign investment. Motion pictures are distributed by a government agency and are subject to censorship.

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 operating costs, exposing them to greater risk.

Many foreign firms operating in Syria have bad experiences with the Government of Syria which has a poor understanding of free market economics and conducting economic relations on a mutually beneficial basis.

6. Export Subsidy Policies

Export financing and subsidies are not available to either the public or 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 complete export transactions have enhanced the foreign exchange position of these companies. In the past, the system of multiple exchange rates has channeled exports to the black market. Exporters resort to unofficial channels when official exchange rates do not offer adequate incentives. However, this system is grossly inefficient and has prevented the development of Syrian export industries. Syria has in the past exported to the former Soviet Union under special bilateral agreements, but this subsidized trade has been suspended.

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 and the Madrid Agreement on Deceptive Indications of Source. 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 revenue lost by U.S. firms in 1992 is estimated at $5 million. In any event, enforcement 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.

Taking its responsibilities in this field seriously, the government raided shops selling computer programs early in 1993, confiscating all illegally reproduced programs.

8. Worker Rights

a. *The Right of Association.*—The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are also each elected by their respective union's membership. In July 1993, the International Labor Organization's (ILO) experts committee expressed its regret that there were no intentions to move away from the single trade union system. While the Syrian government contends that trade union pluralism exists, in fact, workers are not free to form labor unions independent of the government-prescribed structure. The ILO committee of experts' 1993 report noted that legislation was pending before the Syrian Council of Ministers to amend certain labor laws, including the granting of the

right of any trade union to be governed by its own by-laws without those rules having to correspond to those of the GFTU. As these changes are still pending, the Syrian government has not made sufficient changes regarding workers' rights to prompt a reconsideration of the U.S. Trade Representative's 1992 suspension of GSP privileges.

b. *The 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 ten specific examples of such sectoral collective bargaining agreements. In a country in which major industries are publicly held, workers make up the majority of each board of directors and union representatives are always included on those boards. They also monitor and enforce compliance with the labor law.

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, but there is no information available on whether such contracts envision that unions can also sue and be represented in court.

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 offenses, 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 14; in some public sector the minimum age is higher. 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.*—As mandated in the constitution, the government legislatively establishes minimum and maximum wage limits in the public sector and sets limits on maximum allowable overtime for public sector employees. The minimum wage does not enable a worker and his family to survive, so many workers take additional jobs, open businesses, or rely on extended families for support. According to the 1959 Labor Act, minimum wage levels in the private sector are set by the Minister of Social Affairs and Labor. His decision is based on recommendations from a committee including government officials, employer representatives, and employee representatives.

Syrian labor law extensively regulates conditions of work. This includes rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job related injuries. They are commonly employed in small private firms and businesses in order to avoid the costs of permanent employees who are well protected, even against firing.

f. *Rights in Sectors With U.S. Investment.*—There is no direct U.S. investment, other than oil exploration and development, in Syria. U.S. firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount
Wholesale Trade	0
Banking	0
Finance and Insurance	0
Services	0
Other Industries	5
TOTAL ALL INDUSTRIES	(1)

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

TUNISIA

Key Economic Indicators

[Millions of Dinars (TD) unless otherwise noted]

	1991	1992	1993 [1]
Income, Production and Employment:			
Real GDP (1990 base) [2]	11,236	12,151	12,467
Real GDP Growth (pct.)	3.9	8.1	2.6
GDP (current prices) [2]	12,013	13,725	14,892
By Sector:			
Agriculture	2,016	2,133	1,964
Manufacturing Industries	1,906	2,062	2,168
Non-manufacturing Ind	1,472	1,520	1,544
Tourism	441	600	663
Services	3,036	3,303	3,512
National Income Per Capita (TD's)	1,367	1,452	1,467
Labor Force (million)	2.44	2.50	2.56
Unemployment Rate (pct.)	15.7	16.0	16.2
Money and Prices:			
Money Supply	2,636	2,827	2,810
Commercial interest rates	[3] 14	[3] 14	[3] 14
Savings rate (pct.)	[4] 8	[4] 8	[4] 8
Consumer Price Index	177.9	187.8	196.2
Official Exch. Rate ($ per TD)	1.10	1.20	1.02
Trade and Balance of Payments:			
Total Exports (FOB) [5]	3,417	3,567	3,994
Exports to U.S	25	51	50
Total Imports (CIF) [5]	4,789	5,689	6,241
Imports from U.S	154.1	282.3	350
Current Account Balance	−95	50	200
Aid from U.S. (FY basis)	27.1	21.8	14.7
External Public Debt	6,400	6,850	7,505
Debt Service Payments	1,167	1,156	1,364
Gold Reserves	4.3	4.3	4.3
Foreign Exchange Reserves	637	900	800

[1] Figures for 1993 are estimates based on data available through September, 1993.
[2] GDP at factor cost.
[3] Max.
[4] Avg.
[5] Merchandise trade.

1. General Policy Framework

Tunisia has a mixed economy composed principally of agriculture, tourism, manufacturing, and hydrocarbon and phosphate mining. 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 since then. The manufacturing sector comprises about 15 percent of GDP, and consists primarily of textiles and food processing. Agriculture also comprises about 15 percent. This sector, vulnerable to the vagaries of weather, is down seven percent in 1993. The non-manufacturing industrial sector accounts for 12 percent of GDP, and consists principally of phosphate mining and hydrocarbon extraction.

For 1993, the government is predicting 2.6 percent real growth. This is down slightly from the 2.9 percent predicted at the start of the year, largely the result of the poorer agricultural harvests. The favorable rainfall in the early and mid growing season was not sustained through the end of the season, and the results are down in comparison to the excellent results of 1991 and 1992. Manufacturing is up 2.9 percent, exports are up 4.5 percent, and inflation is being held to 4.5 percent.

The country is now in the seventh 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.

The United States and Tunisia have two major bilateral treaties affecting trade: a Double Taxation Treaty in which each country has agreed to avoid double taxation on corporations or individuals active in both countries; and a Bilateral Investment Treaty dealing with the treatment of American companies in Tunisia, expropriation, remittance of profits, and international arbitration of disputes.

Fiscal Policy: The 1993 budget provides for 11.2 percent increase in expenditures and 13.4 percent increase in revenues. The deficit is financed through both international and domestic borrowing. Government policy has called for an expanding economy to cope with deficit problems, and the trend in recent years is favorable: In 1991, the 486 million dinar net deficit equaled 4.5 percent of GDP; in 1992, the figures were 366 million dinar equal to 2.8 percent of GDP; in 1993, 357 million dinar equal to 2.4 percent; and the '94 budget anticipates a net deficit of 320 million dinar equal to 1.9 percent of GDP.

Monetary Policy: The principal objective of the Central Bank remains the effective control of inflation. Between 1987 and 1991 the inflation rate varied from six to eight percent. In 1992, it was 5.5 percent. In 1993, it is 4.5 percent. This trend is largely the result of the price and import liberalization policies which have encouraged greater international and domestic competition.

2. *Exchange Rate Policy*

President Ben Ali has declared that 1993 will be the year the dinar is made convertible for current account purposes. Appropriate legislation was introduced in April, and some but not all of the detailed Central Bank circulars have been promulgated. Under the plan, (a) foreign exchange will be more readily available for business trips, tourism, study abroad and health related travel; (b) exporters will be permitted to retain a higher percentage of the foreign exchange they generate; (c) businesses and banks will be able to borrow abroad directly instead of through the Central Bank; and, (d) businesses and banks will be able to channel payments to foreigners through a commercial bank instead of the Central Bank for those services arising from normal business activities.

The principal currencies quoted against the Tunisian Dinar (TD) are the U.S. dollar, the Deutschemark, and the French franc. The rate has varied considerably over the past 13 years from a high in 1979, when the Tunisian dinar equaled $2.47, to a low in 1993, when it equaled $0.98. For 1993, the rate is projected to average about one Tunisian dinar equals $1.02.

The exchange rate is set daily by the Central Bank via a controlled floating system based on the currencies of Tunisia's major trading partners. However, the pending convertibility plan proposes to change this to a more flexible and market oriented method. The most likely scenario is one in which representatives of the largest banks meet each day and, through market type interplay and auctioning, allocate the foreign exchange among themselves in accordance with their needs and those of their clients.

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.

Over the past four years the economy has grown at an average annual rate of 5.6 percent, and inflation has been held to an average of 6.2 percent per year. In 1992, the government embarked upon its eighth five-year economic plan emphasizing private investment and domestic consumption as well as continued export growth.

Tax Policies: Under the structural adjustment program, import regulations have been relaxed to stimulate economic expansion through export of manufactured goods. The import of raw materials and semifinished goods has also 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 as a value added tax (VAT) introduced in 1988 is payable on imported items at rates identical to those on locally produced goods.

The only taxes having significant effect on U.S. exports to Tunisia are import tariffs. By 1991, the Structural Adjustment Program had reduced the maximum basic tariff 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, the surcharge was later extended through 1992, and, despite repeated assurances during 1992 that it would be terminated as scheduled, it remains in effect in 1993.

In addition, Tunisia 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. The new policy authorized an additional duty of 30 percent in 1992, reduced to 20 percent in 1993, ten 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 of two TD per declaration. However, in 1993 Tunisia revised its list of tariff concessions by modifying the tariff or provisional compensatory duty on nearly 280 items. According to the government, the action was taken to protect the competitiveness of certain domestic industries, and the Tunisian GATT representative expressed willingness to enter into GATT Article XXVIII and XIX negotiations as appropriate concerning these changes.

Investment policy: Existing 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. In addition to generous fiscal and customs advantages, the law provides nonresidents with a transfer guarantee for capital invested through the import of foreign convertible currency and the 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.

A new Unified Investment Code that will consolidate many of the existing separate codes is in the final stages of national debate. Under the proposed legislation all types of investment will have up to 35 percent of their reinvested revenues and profits exempt from taxation and will pay only ten percent customs duty on imported capital goods. For those companies producing exclusively for export, 100 percent of the revenues and profits stemming from exports are exempt from taxation for a period of ten years (reduced to 50 percent after ten years). Companies producing "exclusively for export" will have the right to sell up to 20 percent of their output on the local market. Additional special incentives are proposed for those investments that benefit underdeveloped areas, the environment, agriculture and fishing, entrepreneurs and small businesses.

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

Total external debt will reach 7,505 TD in 1993. Debt service payments rose 18 percent in 1993 to 1,364 million dinar, and are expected to rise another 17 percent

in 1994. This increase stems principally from dinar devaluation over the past year. Approximately 73 percent of the country's foreign debt is in U.S. dollars or dollar-linked currencies and the dinar fell 25 percent against the U.S. dollar between September, 1992 and September, 1993. The 1,364 million dinar debt service payment constitutes 27 percent of the government budget. Debt service as a percentage of exports of goods and services is approximately 21 percent.

The Central Bank closely monitors the level of external debt and tries to keep it as low as possible. 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 deficit is financed through concessional 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 by aligning debt service payment dates with anticipated receipts from sectors characterized by seasonal variation (e.g., tourism), and by aligning debt service payments 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. Tunisia also frequently adopts European product standards for itself, a policy that works to the disadvantage of U.S. exporters.

Tunisia's leading supplier in 1992 was France ($1,447 million), followed by Italy, ($1,030 million), and Germany ($793 million). The United States was in fourth place with $282 million of exports. Agricultural products (much of it financed by U.S. aid and export credit programs) accounted for one-third of U.S. exports to Tunisia in 1992.

There exists real possibilities for increasing the level of U.S. exports to Tunisia in areas such as consumer goods, environmental services, construction equipment, telecommunications, and packaging machinery and equipment. However, Tunisian businessmen frequently report that American products are highly competitive at the prices at which they are offered in the United States, but not competitive when they must be purchased through a high-priced European intermediary.

6. Export Subsidies Policy

Tunisia has a wide range 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 percent for air freight and 33 percent for sea freight. There is also a government agency to promote exports, the Export Promotion Center (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, the Madrid Agreement on deceptive indications of source, and the Bern 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.

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. *The Right of Association.*—The Tunisian constitution and the labor code establish the right of workers to form unions. The central labor federation, the Tunisian General Federation of Labor (UGTT), claims about 15 percent of the work force as members, including civil servants and employees of state owned enterprises. The

UGTT and its member unions are legally independent of the government, the ruling party, and other political forces but operate under government regulation. While there is no legal requirement for a single trade union structure, the UGTT has developed into the country's sole labor organization by historical circumstance. The government has decreed that the UGTT member federations are the negotiators for collective bargaining agreements that cover 80 percent of the private sector work force, whether unionized or not.

Union federations, including those of civil servants, have the right to strike provided ten days advance notice is given and the UGTT approves. The International Labor Organization's Committee of Experts cited the required UGTT approval 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. In the first half of 1993 there were 23 legal strikes and 245 illegal ones, but the government did not prosecute workers in any of the illegal cases.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is protected by law and practiced throughout the country. Wages and working conditions are established by negotiation between the UGTT member federations and the employer representatives of approximately 47 collective bargaining agreements which set standards applicable to entire industries in the private sector. It also negotiates with the various ministries and 208 state-run enterprises in the public sector. In 1993, the UGTT negotiated triennial public and private collective bargaining agreements calling for an average five percent annual wage increase.

Anti-union 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 anti-union activities by private sector employers. The central labor organization has characterized the propensity of certain industries to hire temporary employees as "anti-union 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 benefits otherwise required. This problem is most acute in the textile sector where such labor accounts for as much as 80 percent of the work force.

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 for Employment of Children.*—The minimum age for employment in the manufacturing sector is 15 years, and in the agricultural sector 13 years. 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. The UGTT alleges that certain apprenticeship programs are, in fact, a form of child labor.

e. *Acceptable Conditions of Work.*—Tunisia has a labor code dating from independence in 1956 that sets standards, including a maximum 48 hour work week and a range of administratively determined minimum wages. The Social Affairs Ministry has an office responsible for improving health and safety standards in the work place. Regional labor inspectors are responsible for enforcing these standards but most firms are inspected only about once every two years. The 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 exists primarily in the petroleum industry where both union and nonunion firms operate.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		18
Total Manufacturing		(1)
Food & Kindred Products	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	([1])	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		([1])
Finance and Insurance		0
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		33

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

UNITED ARAB EMIRATES

Key Economic Indicators

[Millions of dirhams unless otherwise noted]

	1991	1992	1993[1]
Income, Production, and Employment:			
Real GDP (1985 prices)	119,059	123,821	N/A
Real GDP Growth (pct.)	5.2	4.0	N/A
GDP (at current prices)[2]	126,264	130,163	131,660
By Sector:			
Agriculture, Livestock, and Fishing	2,563	2,730	2,838
Mining and Quarrying:			
Crude Oil	54,260	53,116	51,350
Other	332	355	369
Manufacturing	9,770	9,942	10,991
Electricity/Water	2,700	2,869	2,961
Construction	10,365	11,125	11,582
Wholesale, Retail trade, Restaurants and Hotels	11,943	13,020	13,682
Transport, Storage, and Communications	6,711	7,167	7,490
Finance and Insurance	5,488	6,431	6,656
Real Estate	7,440	8,180	8,583
Other Services	2,689	2,931	3,107
Less Imputed Bank Services Charge	−2,182	−2,684	−2,768
Government Services	13,634	14,376	14,981
Domestic Services (Households)	551	605	638
Trade Surplus	30,702	21,888	17,546
Real Per Capita GDP[3]	62,341	61,559	N/A
Labor Force (000's)	717.9	733.5	N/A
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	14.5	4.6	0.6
Base Interest Rate (pct.)[5]	5.00	3.88	2.75
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	3.0	3.5	3.0
Wholesale Inflation	N/A	N/A	N/A

Key Economic Indicators—Continued

[Millions of dirhams unless otherwise noted]

	1991	1992	1993 [1]
Consumer Price Index (1985 100)	115.4	118.4	N/A
Exchange Rate (dirhams per dollar):			
Official	3.671	3.671	3.671
Parallel	N/A	N/A	N/A
Trade and Balance of Payments (in millions of U.S. dollars):			
Total Merchandise Exports	22,122.5	22,860.8	22,872.5
of which to U.S.[6]	713.4	871.9	568.7
Total Merchandise Imports	13,904.8	16,893.7	18,533.0
of which from U.S.[7]	1,455.0	1,552.4	1,156.0
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 FOREX Reserves[6]	5,236.2	5,856.2	N/A
Merchandise Trade Balance	8,217.7	5,967.1	4,339.5
Balance with U.S.[7]	−741.6	−680.5	−587.3

N/A—Not available.
[1] Estimated.
[2] At factor cost.
[3] Dirhams
[4] For 1993, December 1992 to June 1993; for 1991 and 1992, December to December.
[5] Dirham 3-month interbank offer rate from November 1991, November 1992, and November 1993.
[6] Central Bank only.
[7] For 1993, January to August.

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven emirates that retain a high degree of control over their respective political and economic activities, including ownership and management of their oil resources and oil revenues. The federal government, responsible for defense, internal security, justice, health, education, and foreign aid, relies mostly on transfers from individual emirates for its revenue. In 1991, Abu Dhabi's share of UAE GDP came to 63.5 percent. The smallest share, at 0.6 Percent, went to Umm al Quwain. In the same year, Abu Dhabi had the highest per capita GDP, at $31,508, while Ajman's, at $6,093, was lowest. In 1992, Abu Dhabi's per capita GDP rose to $32,067, and Ajman's had climbed to $6,312. Umm al Quwain was the only emirate to see per capita gdp fall from 1991 to 1992, from $9,080 to $8,756.

Economic activity in the UAE depends largely on developments in the oil sector, which accounted in 1992 for 76 percent of government revenue and 68 percent of the country's export receipts. Lower oil prices in 1993 and UAE adherence to an OPEC quota will mean that total UAE earnings from oil will fall in 1993 to $12.5 billion from $14.5 billion in 1992. Government fiscal policies aim to maintain non-oil sector growth through spending oil revenues on development projects, without creating inflation or drawing down official reserves. There are no taxes on UAE nationals and few on the large expatriate population. Most services, including utilities, health care, education, and food are heavily subsidized by the government. Fluctuations in oil prices are met with changes in the level of government expenditure or by drawing down reserves. When oil prices declined considerably in the mid-1980's, the UAE federal government and the larger emirate governments responded by drawing down foreign assets and cutting capital expenditures more than current spending.

It is unclear in December 1993 whether lower oil revenues will necessitate an adjustment in the governments' fiscal policies. The federal government announced in December that its budget for calendar year 1994 will be as large of that for 1993, which was the largest since the early 1980's. The option followed in the mid-80's is still available. The respective governments, through their official agencies, including the central bank for the federal government, and the Abu Dhabi investment authority for the emirate of Abu Dhabi, have ample reserves and no debts.

The principal function of the UAE Central Bank is to regulate commercial banks, which it has done very actively in 1993. The bank seeks to maintain the dirham/dollar exchange rate, which has not changed since 1980, and to keep interest rates

close to those in the U.S. Given these goals, the Central Bank does not have the scope to engage in independent monetary policy. Trends in domestic liquidity continue to be primarily influenced by residents' demand for UAE dirhams relative to foreign exchange. 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. To a limited extent, domestic liquidity can be influenced by the Central Bank through its sale and purchase of foreign exchange, use of its swap facility, and transactions in its certificates of deposit.

The provision of government statistics in the UAE is limited. Little information is available on oil and gas output or pricing, inflation, service and capital transactions in the balance of payments, or the UAE's foreign assets.

2. Exchange Rate Policy

Since November 1980, the UAE dirham, though formally pegged to the IMF's special drawing rights (SDR) at the rate of one SDR equals 4.76190 dirhams, with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent, has been kept in a fixed relationship to the U.S. dollar. Since November 1980 the buying and selling rates for the U.S. dollar have been 3.6690 dirhams and 3.6730 dirhams, respectively. Commercial banks are free to enter into foreign exchange transactions, including forward contracts, at rates of their own choosing. In practice, these rates have followed closely the rate quoted by the UAE Central Bank. The UAE maintains a liberal exchange system which is free of restrictions on both payments and transfers for current and capital transactions. The trade system is also free of restrictions and only a small proportion of total imports is subject to tariffs at an effective rate of one percent.

3. Structural Policies

There have not been any significant changes in the UAE regulatory framework in 1993. Government interference in the economy remains minimal. The central bank announced a regulation in October that would limit the size of loans outstanding to one client, defined as an individual, a company, or a group of related companies, to seven percent of capital. For foreign banks, the regulation defines capital as local capital, not international capital. The bank's stated objective in issuing the regulation is to strengthen local banks. The effect will be to encourage foreign banks to book loans offshore, unless the regulation can be modified. As of December, talks were underway between the bank and foreign banks over how to resolve the objections of the latter.

A new shelf-life regulation that considerably shortens shelf-life for various categories of imported food threatens U.S. egg exports to the UAE.

4. Debt Management Policies

The UAE central government has no official foreign debt. Some smaller, individual emirates are believed to have foreign debts, and there is private external debt. While there are no reliable statistics on either, the amounts involved are not large. The foreign assets of Abu Dhabi, Dubai, and their official agencies are believed to be significantly larger than the reserves of the UAE Central Bank.

External assistance is provided by the federal government, emirate government agencies, individual rulers, and private contributors. No comprehensive figures are available. In 1991, the UAE government spent $4.74 billion on aid in connection with the gulf crisis. This amounted to 14 percent of GDP for that year. In 1992, the aid level had dropped to $735 million, or two percent of GDP. The largest aid donor within the UAE, the Abu Dhabi Fund for Arab Economic Development (ADFAED), distributed $1.6 billion in loans and $116.6 million in grants between 1974 and 1992.

5. Significant Barriers to U.S. Exports

The regulatory and legal framework heavily favors local over foreign business. There is no national treatment for investors in the UAE. Except for companies located in duty-free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing anything into the UAE must be 100-percent owned by a UAE national. Subsidies for manufacturing firms are only available with at least 51-percent local ownership. By law, foreign companies wishing to do business in the UAE must have a UAE national sponsor, agent or distributor.

There is some disagreement between the federal and local authorities over the meaning of "national". The Federal Ministry of Economy and Commerce stipulates that a national sponsor is a sponsor for the entire country. Local chambers of commerce see "national" as meaning UAE citizen, and often will not allow a business to operate within their emirate if the sponsor is from another emirate. Once chosen,

these sponsors, agents, or distributors have exclusive rights. Sponsors can be replaced, if the sponsor agrees. This happens, but not often. Foreign companies do not press claims, knowing that to do so would jeopardize any future business activity in the UAE. Foreigners can not own land or buy stocks. Foreign companies do not pay taxes, except for banks, whose profits are taxed at a rate of 20 percent, and oil producers, which pay taxes and royalties on their equity barrels.

The tendering process is not conducted according to generally accepted international standards. Re-tendering is the norm, often as many as three or four times. To bid on federal projects, a supplier or contractor 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.

7. Protection of U.S. Intellectual Property Rights

In 1992, the UAE passed three laws pertaining to intellectual property: a copyright law, a trademark law, and a patent law. All three were to have gone into effect in 1993. While the government has begun registering trademarks and patents, little has been done to implement the copyright law, which, in the view of U.S. Government experts, does not, as written, protect U.S. works. Nothing apparent has been done about the manufacture, sale, and export to surrounding countries of pirated video and sound recordings. U.S. industry estimates that UAE sound and video piracy costs it $116 million per year. Most software sold in the UAE is also unauthorized.

8. Worker Rights

a. *The Right of Association.*—UAE law is silent on the right of workers to organize unions and to strike, except that it is a criminal offense for public sector workers to strike. In practice, there are no unions and few strikes. Foreign workers who might attempt to organize a union risk deportation.

b. *The Right to Organize and Bargain Collectively.*—There is no legal provision for the right of workers to engage in collective bargaining. Most of the work force is foreign. Workers in the industrial and service sectors are normally employed under work contracts that are subject to review by the Ministry of Labor and Social Affairs. For the resolution of work-related disputes, workers must rely on conciliation committees organized by the Ministry of Labor and Social Affairs, or on special labor courts. Domestic servants and agricultural workers are not covered by UAE labor laws and thus have great difficulty in obtaining any assistance in resolving labor disputes. The same laws and regulations apply as in the rest of the country in the free ports, where manufacturing takes place.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and 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 contracts only for adult foreign workers. In January 1993, the government announced new regulations prohibiting the employment of young children as camel jockeys and decreed that camel jockeys should weigh no less than 45 kilograms. It also created a camel race association to enforce the new rules. Small children who were employed as jockeys were returned to their parents.

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 rate which would afford a worker and family a minimal standard of living. The labor and social affairs ministry reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

Work hours are restricted to eight hours per day, six 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 ten national and religious holidays.

Most foreign workers receive either employer-provided housing or a housing allowance, medical care, and homeward passage through their employers. The vast majority of such workers, however, do not earn the minimum salary ($1,000 per month) required for them to sponsor their families for a UAE residence visa. Employers have the option to petition for a ban from the work force of one year for any foreign employee who leaves his job without fulfilling the terms of his contract.

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, which oversees worker compensation, is, however, chronically understaffed and under-budgeted, so that complaints and compensation claims are 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 in the country of origin use unscrupulous tactics to entice foreign manual laborers and domestics to the UAE, promising false salaries and benefits, and at times bringing them in illegally. Such cases may be appealed to the Labor Ministry and, if this does not resolve the issue, to the courts. However, many laborers are reluctant to protest or to engage in such a lengthy process because of fear of reprisals by their employers. Moreover, since the UAE tends to view foreign workers through the prism of their various nationalities, employment policies, like immigration and security policies, have at times been conditioned upon national origin.

The bottom line is, that regardless of nationality, job, or education, virtually all foreigners working in the UAE, which means the vast majority of the work force, are in the UAE by choice for one simple reason: the pay is better than at home. Although they are free to leave whenever they want, few do.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		306
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		116
Banking		(1)
Finance and Insurance		(1)
Services		17
Other Industries		(1)
TOTAL ALL INDUSTRIES		480

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

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

SOUTH ASIA

BANGLADESH

Key Economic Indicators

[Millions of taka unless otherwise noted]

	FY91[1]	FY92	FY93
Income, Production, and Employment:			
Real GDP (1985 prices)	514,442	534,820	557,800
Real GDP Growth (pct.)	3.40	3.96	4.30
GDP (current prices)	834,392	903,287	954,500
By Sector:[2]			
Agriculture	300,596	316,723	334,648
Energy and Water	11,201	14,011	14,795
Manufacturing	72,801	82,571	87,241
Construction	47,261	53,466	56,411
Financial Services	16,299	17,793	18,804
Other Services[3]	386,122	418,603	442,315
Net Exports of Goods and Services	–59,767	–53,512	N/A
Real Per Capita GDP (taka)	4,466	4,540	4,629
Labor Force (000's)	52,200	54,300	N/A
Money and Prices (annual percent growth unless noted):			
Money Supply (M2, billion taka)	250.9	285.3	285.5
Base Interest Rate (pct.)[4]	9.75	9.0	7.0
Personal Saving Rate (pct.)	3.0	3.8	3.8
Retail Prices[5]	8.95	5.09	1.37
Wholesale Prices	N/A	N/A	N/A
Consumer Price Index[5]	689.30	724.40	734.30
Exchange Rate (Taka per $): Official (end-December)	35.79	38.58	39.00
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	1,670	1,901	2,130
Exports to U.S	524	832	[6]518
Total Imports (CIF)	3,470	3,457	3,538
Imports from U.S	179	189	129
Aid from U.S.[7]	140	135	73.5
Aid from Other Countries[8]	1,733	1,611	1,572
External Public Debt[9]	10,690	11,157	12,605
Debt Service Payments[9]	568.8	535.5	505.6
Gold and FOREX Reserves	998	1,631	2,082
Trade Balance	–1,800	–1,556	–1,408
Balance with U.S	–345	–643.5	[6]–389

N/A—Not available.

[1] The Bangladesh fiscal year is July 1–June 30.
[2] FY93 sectoral data is estimated on the basis of sectoral GDP contribution of FY92.
[3] Figures are for all services.
[4] Average annual Central Bank rate.
[5] Inflation figures are based on General Price Index.
[6] Figures are based on U.S. Department of Commerce January 1–July 31 period.

[7] Figures are for the October 1–September 30 fiscal year.
[8] Figures are for total foreign assistance disbursements.
[9] Figures are based on Bangladesh Government, Economic Relations Division.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed nations. With 120 million people and a GDP of $24 billion in Bangladeshi fiscal year 1992–93 (FY93), 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.

Given more respite from natural disasters and major political unrest, Bangladeshi's democratically elected government continued to take some halting steps towards economic reform in FY93. Changes in Bangladesh's tax and tariff regimes, the liberalization of the foreign exchange regime, including a declaration of taka convertibility on the current account, have made markets more open. The macroeconomy appears healthy, with record low inflation, bulging foreign exchange reserves, and a reduced current account deficit. Another bumper rice crop and spectacular growth in the garment export industry are expected to push economic growth up from 4.3 percent to around five percent this year.

Government expenditures, composed primarily of current expenditures and the Annual Development Program (ADP), stayed under control for FY93. Domestic revenues, buoyed by improved tax revenue performance exceeded current expenditure once again. Increased revenues with restrained current expenditure left a current revenue surplus of 25.5 billion taka. This surplus provides the government contribution to the country's development budget called Annual Development Program (ADP). While most funding for the ADP will come from donor nations, the finance ministry planned to maintain Bangladesh's contribution at about 31 percent in FY94. Tax revenues reached a record high in FY93, although the rate of growth in government revenues slowed to around 16 percent compared to 22 percent in FY92.

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. Private sector demand has been reduced in recent years, first by political uncertainties and increasingly by stricter credit requirements instituted as part of ongoing financial sector reforms.

In spite of achieving macroeconomic stability, Bangladesh's microeconomic picture is not encouraging. The state presence in the economy continues to be far too large. The government made little progress in privatizing inefficient state-owned industries or reducing the public payroll. The level of investment badly needed for job creation, from both the private and public sectors, is among the lowest in Asia.

Although investment measures were further liberalized by allowing private sector investment in the energy and telecommunication sectors, the investment climate continues to be generally poor. Bureaucratic bottlenecks, labor unrest and a deteriorating law and order situation continued to discourage domestic and foreign investors, keeping Bangladesh from reaching the six to eight percent sustained economic growth necessary to lift it out of poverty. The Government of Bangladesh hopes to boost GDP growth to an ambitious five percent in FY94. This will require another good rice crop, an improvement in ADP implementation and foreign aid utilization and significant progress in expanding the role of the private sector.

2. Exchange Rate Policy

Following a path of progressive liberalization of foreign exchange regulations, the Bangladesh Bank declared a number of measures during FY93. Floating foreign exchange rates are fixed on a daily basis by commercial banks according to worldwide cross rates. The Bangladesh Bank also fixes rates, which act as reference rates for the taka, based on a trade weighted basket of currencies. The government recently declared the taka convertible for current account transactions.

While the high level of hard currency reserves and a black market rate very close to the official rate suggest that the exchange rate is close to its equilibrium level, the taka's market value is nonetheless bolstered by the large sums of foreign exchange Bangladesh receives every year through aid transfers and by a still very high level of effective tariffs and quantitative restrictions on imports. U.S. products and services have only become generally more price competitive in the Bangladesh market to the extent that the value of the U.S. dollar has declined against competitor nations' currencies.

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. Bangladeshi travellers are limited by law to taking no more than $2,500 out of the country per year.

3. Structural Policies

In its final year of the IMF's three-year ESAF program, Bangladesh continued to meet or exceed the ESAF fiscal and monetary targets. After a steady rise from FY91 to FY92, the money supply leveled out at near zero growth in FY93. As was the case in FY92, low effective demand for loans led to limited growth in private sector credit, tending to dampen growth in the money supply. Moreover, the VAT continued to generate higher than anticipated revenues for the government, with collections up ten percent in real terms. Government spending has also been reined in through controls imposed on the level of subsidies provided to several money-losing parastatals and an attempt to shift greater central government resources towards capital or development expenditures. Gross inflation is estimated at 1.37 percent, low by any standard.

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. Long an easy source of funds for preferred borrowers who did not feel obliged to repay their loans, the banking sector in Bangladesh is undergoing a wholesale reform effort under the Financial Sector Reform Program (FSRP), supported by the U.S. Agency for International Development (USAID) and the World Bank. The FSRP faces a daunting challenge in attempting to convert a bureaucratically run, economically unresponsive, network of nationalized banks into a useful source of capital for entrepreneurs. Insulation from market forces permitted the banks to maintain administered interest rates and to ignore the bottom line in providing and pricing banking services. The FSRP has made considerable progress in repricing banking services and liberalizing interest rates.

Key to the future solvency of the banking system, the World Bank's jute reform package promises to restructure over one billion dollars in jute debt owed to government-owned banks. Plans for jute reform were disrupted, however by the agreement to a wage increase package for parastatal employees, which raised the cost of layoffs. Although the government proclaims privatization of public sector industry as a major priority, it has made little progress in selling off or shutting down losing parastatal enterprises. A recently established Privatization Board so far appears ineffectual. Among the several intractable political issues involved in this effort is the need to lay off excess workers and, in some cases, close down whole plants, in the face of strong opposition from organized labor. Due to sustained pressure from donors involved in the energy sector, slow improvements in the management and efficiency of the national power utility are being made.

The effect of the ESAF's tight fiscal and monetary policies, coupled with a strong taka, has inhibited import demand and helped constrain domestic private investment. Inadequate implementation of the Industrial Policy of 1991 by various ministries and agencies has contributed to a stagnant investment picture, with an overall investment rate of around ten percent of the GDP. The impact of the much-publicized Board of Investment remains to be seen.

4. Debt Management Policies

Assessed on the basis of outstanding principal, Bangladesh's national debt was $12.61 billion as of June 1993, up 13 percent from the previous year's level of $11.16 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 $1,219 million to the U.S., primarily incurred under the older PL-480 Title I and III food program. In October 1991, the U.S. provided $293 million in debt relief to Bangladesh in response to the country's adherence to IMF/IBRD macroeconomic reforms. Total medium- and long-term debt servicing for FY93 was $506 million, 5.6 percent lower than the previous year's amount of $536 million.

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

The government continues to liberalize its import regime by relaxing quantitative restrictions. It has simplified import procedures and rationalized tariffs. The Bangladesh government has established three general tariff categories for most products: zero to 15 percent for raw materials, 30 percent for intermediate goods, and

50 or 100 percent for finished goods, resulting in very high levels of effective tariff protection for final products. 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 with traditional countertrade partners such as China, Russia and the Czech Republic. However, countertrade has declined to a small percentage of the value of Bangladesh's overall trade.

The Industrial Policy of 1991 (revised in 1992) allowed foreigners to have 100 percent ownership of businesses and promise foreign investors equal treatment with domestic capital. Recently the government allowed foreign firms to obtain working capital loans in taka from local banks. Many of the Industrial Policy's provisions have yet to be translated into action. However, the major exception is investment 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 the investors' needs, from tax treatments to utility hook-ups. Investment proposals outside the EPZ can be delayed in processing for years.

6. Export Subsidies

The Bangladesh government attempts to encourage export growth through measures such as ensuring duty-free status for some imported inputs including capital machinery and providing easy access to financing for exporters. Ready made garments producers are stimulated by bonded warehousing and back to back letter of credit facilities. Exporters are now allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Interest rate subsidies to exporters financed by the Government were slightly reduced in 1991. Bangladesh has so far continued to resist 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.

Bangladesh's first export processing zone (EPZ), located near the main port city of Chittagong, has 52 factories and has attracted investment worth $137 million since its founding in 1983. 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. In June 1993, the Government established a similar export processing zone in the town of Savar, north of Dhaka and close to the international airport. So far 37 proposals for factories have been approved, and three factories have already gone into production. A third EPZ is expected to open in two years in the southern city of Khulna.

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 patents, trademarks, and copyrights in Bangladesh.

Drafts of new legislation have been produced by the legal profession in some cases, these drafts are under review by governmental committees, in one case, that of a new company law, since 1986. Although the government has not given intellectual property issue 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.

8. Worker Rights

a. *The Right of Association.*—The Bangladesh constitution guarantees freedom of association, the right to join unions, and, with government approval, the right to form a union. With the exception of workers in the railway, postal, telegraph, and telephone departments, state administration workers are forbidden to join union. Some workers have formed unregistered unions, however. The ban also applies to security-related government employees such as in the military and police. Bangladesh civil servants forbidden to join unions, such as teachers or nurses, have joined associations which perform functions similar to labor unions. Workers in Bangladesh's two EPZs have also skirted prohibitions on forming unions by setting up associations.

b. *The Right to Organize and Bargain Collectively.*—The Government has stated that labor law restrictions on freedom of association and formation of unions in the EPZs will be lifted by 1997. In the burgeoning garment industry, there have been numerous complaints of workers being harassed and fired in some factories for trying to organize workers.

Unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling government party (BNP). Some unions are militant and engage in intimidation and vandalism. Illegal blockades of public transportation routes by strikers occurred several times in 1993, with scattered violence. General strikes, or "hartals", continue to be used by the political opposition to pressure the Government. Hartals cause significant economic and social disruption through loss of work hours and production. The Essential Services Ordinance permits the Government to bar strikes for three months in any sector deemed essential. Mechanisms for conciliation, arbitration, and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor. The Factories Act and Shops and Establishments Act, 1965, set up inspection mechanisms to enforce laws against forced labor, but resources for enforcement are slim. These laws are not rigorously enforced.

d. *Minimum Age for Employment of Children.*—Bangladesh has laws that prohibit labor by children. The Factories Act of 1965 bars children under the age of 15 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangaladesh's, the extra income obtained by children, however meager, is welcome and sought after. In anticipation of possible U.S. legislation prohibiting the import of products made by child labor, thousands of underage children employed in Bangladesh's garment industry were fired in 1993.

e. *Acceptable Conditions of Work.*—Regulations regarding minimum wages, hours of work and occupational safety and health are not strictly enforced. Minimum wages set by law, vary depending on occupation, but are generally ignored. There is no national minimum wage. Instead, the Wage Commission sets wages industry-by-industry. In most cases, private sector employers ignore this wage increases, arguing that low labor productivity vitiates any arguments for set wage.

The law sets a standard 48-hour workweek with one day off mandated. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient to support life but is not by any means a good wage for a family. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many Bangladeshi employers.

f. *Rights in Sectors With U.S. Investment.*—U.S. investment stock in Bangladesh is very small, totaling less than $30 million. It is concentrated in the capitalization and physical assets of a life insurance company, a commercial bank, a representative banking office, and a few other service and 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 working in comparable indigenous firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		[1]
Food & Kindred Products	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance and Insurance		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

INDIA

Key Economic Indicators

[Billions of Indian rupees unless otherwise noted]

	FY91–92	FY92–93	FY93–94[1] (proj.)[2]
Income, Production and Employment:			
Real GDP (1981 prices)[3]	2,412.6	2,513.9	2,589.0
Real GDP Growth (pct.)	1.3	4.2	3.0
GDP (at current prices)[3]	6,095.0	6,887.4	7,576.0
By Sector (pct.):			
Agriculture	30.8	31.5	31.2
Energy and Water	2.4	2.3	2.4
Manufacturing	22.3	22.0	22.3
Construction	4.6	4.5	4.6
Rents	5.2	5.1	5.2
Financial Services	5.5	5.4	5.5
Government, Health and Education	29.2	29.2	28.8
Real per capita GDP (1981 Prices)	2,818.5	2,879.6	2,906.0
Labor Force (millions)	321	329	338
Unemployment Rate (pct.)	22.0	22.0	22.0
Money and Prices (annual pct. growth):			
Money Supply (M3)	29.4	14.1	14.0
Base Interest Rate (pct.)	20.0	19.0	18.0
Personal Saving Rate (pct.)	19.9	19.6	19.4
CPI (1985=100)	171	191	N/A
Wholesale Inflation (pct.)	13.6	7.0	8.5
Exchange Rate (Rupees per $):			
Official	24.5	28.9	31.5
Parallel	28.0	31.0	33.0
Balance of Payments and Trade:			
Total Exports (FOB)[4]	440.4	533.5	661.0
Exports to U.S	72.0	101.1	125.0
Total Imports (CIF)[4]	478.5	629.2	724.0
Imports from U.S	49.2	61.5	72.0
Trade Balance[4]	−38.1	−95.7	−63.0

Key Economic Indicators—Continued

[Billions of Indian rupees unless otherwise noted]

	FY91–92	FY92–93	FY93–94[1] (proj.)[2]
Balance with U.S	22.8	39.6	53.0
Aid from U.S.[5]	145.0	153.6	119.4
Aid from Other Countries/Institutions[5]	1,964	2,096	2,300
External Public Debt[5]	43,468	48,492	54,650
Debt Service Payments[5]	6,770	7,014	7,572
Gold and FOREX Reserves[5]	9,220	9,832	12,500

N/A—Not available.
[1] Indian fiscal year is April 1 to March 31.
[2] 1993 Figures are estimates based on October 1993 data.
[3] GDP at factor cost.
[4] Merchandise trade.
[5] Million U.S. dollars.
Sources: Government of India, IMF, World Bank.

1. General Policy Framework

Since independence in 1947, India's high rate of population growth has been accompanied by disappointing economic growth. Successive governments believed the goals of social equity and self-sufficiency could be achieved by steadily raising the levels of saving and investment. While this approach led to a rapid expansion of the industrial base, the combination of heavily protected markets and state control of the economy's "commanding heights" yielded extraordinarily low productivity and made Indian manufactures internationally uncompetitive. Annual GDP growth in the post-independence era has seldom exceeded 3.5 percent. India's population of almost 900 million has one of the lowest per-capita incomes in the world today.

The last 15 years have witnessed several attempts to place the economy on a higher growth path by stimulating international trade and investment and reducing strict bureaucratic controls. The most radical and sustained effort was launched in July 1991, when the new government of Prime Minister Rao, confronted by unsustainable fiscal and trade imbalances and rising rates of inflation and unemployment, opted to fundamentally reorient the Indian economy. The central government fiscal deficit, which reached nearly nine percent of GDP in FY 1990/91, was reduced to 5.7 percent of GDP in FY 1992/93. Given India's narrow tax base, progress was largely on the expenditure side: subsidies and investment expenditures were curtailed, the defense budget was reduced, and public enterprises and state governments were forced to become more self-reliant.

Further progress in lowering the fiscal deficit seems unlikely during FY 1993–94. Lower imports and reductions in customs tariff rates, central excise duties, and tax holidays for certain investments are contributing to lower revenues. Current expenditures rose in 1993 as the government pushed high-visibility projects to influence crucial state elections. However, several reforms are expected to broaden the tax base during 1994–95, including the introduction of a national VAT system. The central government's fiscal deficit for the current fiscal year is now expected to reach six percent of GDP. The government is committed to further reducing the fiscal deficit in succeeding years.

The government and the Reserve Bank of India (RBI) approached monetary policy during FY 1992–93 with two overarching goals. First, they wanted to reduce the growth rate in monetary expansion (M3), which rose at an average annual rate of 17 percent between fiscal years 1980–81 and 1991–92. Second, they wished to reduce government's reliance on bank credit in favor of private sector borrowing at nominal interest rates, reflecting lower inflation and a phased reduction in reserve requirements. In fact, M3 growth during 1992–93 fell to 14.1 percent, well below the average of the prior decade and the 19.4 percent growth rate posted in FY 1991–92. Growth in net bank credit to the government also declined for the second consecutive year. Credit to the private sector rose as the government intended.

The government appears to have strayed from its goal of compressing monetary expansion to 12.0 percent during 1993–94. During the first five months of the current fiscal year, M3 growth and Central Government use of RBI credit were both higher than planned. RBI and private sector forecasts now predict FY 1993–94 inflation of eight to nine percent. The Cash Reserve Requirement (CRR) was cut from 15 percent to 14 percent in April 1993 and the Statutory Liquidity Ratio (SLR) was reduced from 37.25 percent to 34.75 percent in October, reducing the government's claim on bank credit. The frequently enunciated goal of introducing open market op-

erations to supply the government's funding requirements and manage monetary policy awaits interest rate deregulation and the evolution of efficient primary and secondary markets for government "gilt-edged" securities.

2. Exchange Rate Policy

The current government has broken with tradition by employing exchange rate policy to improve India's export competitiveness and to avoid the external payments crises that have been a recurring theme in modern India. A dual exchange rate system, introduced in 1992, served as the precursor to exchange rate unification on March 1, 1993. The rupee is now fully convertible for trade-related and some current-account transactions. Remittances remain subject to Reserve Bank of India guidelines, but no longer require case-by-case approval. Stronger export earnings and foreign investment flows, as well as returning flight capital, have contributed to a stable exchange rate of about 31.5 rupees per dollar since March 1993.

3. Structural Policies

Price policies: Central and state governments regulate prices of most essential products, including foodgrains, edible oils, basic medicines, energy, fertilizers, water and many industrial inputs. Agricultural commodity procurement prices have been increased substantially during the past two years, while fertilizer, rural electricity and irrigation costs remain well below market levels. Many food products are under a dual pricing system: some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices are usually regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India.

Tax policies: India's tax policies suffer from several problems common to developing countries. Public finances remain overly dependent on indirect taxes, particularly on international trade. Between 1990 and 1993, indirect taxes accounted for 75 percent of central government tax revenue. India's tax base is excessively narrow and marginal rates are high by international standards. Corporate earnings of foreign companies are currently taxed at 65 percent, although a wide range of tax concessions are available. Evasion is widespread. One study estimates that only 35 percent of taxable income is actually disclosed. A government-appointed committee has recommended an increase in the revenue share from direct taxes, introduction of a value-added tax (VAT), and replacement of India's complex tax code with one that is simpler and more transparent. Serious consideration is now being given to a major overhaul of India's tax regime.

Regulatory Policies: The Indian economy remains highly regulated, although an ambitious program of liberalization began with the announcement of the "New Industrial Policy" in July 1991. Restrictions on foreign investment, plant location and capacity expansion, and new product introduction have been dramatically relaxed for all but a few industries. The government actively encourages foreign and domestic private investment in power generation, telecommunications, and other infrastructure. Local sourcing requirements have been abolished. The RBI now serves as the "single window" for virtually automatic approval of foreign investments up to 51 percent of equity. Projects outside the Reserve Bank guidelines are referred to the Foreign Investment Promotion Board (FIPB) for approval, which is generally given. Particularly large projects (over $100 million) or projects that pose sensitive policy issues may be referred to an inter-ministerial committee. As deregulation at the federal level increases the importance of local investment promotion, India's states are giving more attention to their regulatory policies.

4. Debt Management Policies

External Debt Management: India's decision in the 1980's to use debt-financed deficit spending to boost economic growth meant that commercial debt and deposits from non-resident Indians (NRI's) provided an increasing share of the financing for India's mounting trade deficit. The result was a hefty increase in external debt, compounded by rising real interest rates and a declining term structure as India's credit worthiness fell. Total external debt rose from $20 billion in FY 1980–81 to about $75 billion in FY 1990–91. Fueled by rising debt service payments, foreign exchange reserves fell to the equivalent of two weeks of imports during the FY 1990–91 balance of payments crisis. India's reform program, supported by lending from the IMF under a $2.2 billion standby arrangement, boosted reserves to $7.8 billion by early October 1993.

External Debt Structure: Measured by the absolute size of her debt, India is among the world's major borrowers. Total external debt (including ruble and defense-related debt) stood at $85.4 billion on March 31, 1993. The World Bank

(IBRD/IDA) is India's largest creditor and holds over 45 percent of its total outstanding public debt. As a percentage of GDP, the debt stock rose from 28.3 percent at the end of March 1990 to 37.9 percent at the end of March 1993. The debt-service ratio declined slightly during this period to 26.1 percent. Roughly $30 billion of India's debt is on concessional terms: the average interest rate on India's external debt is 8 percent, with an average maturity of 25 years. Short-term debt accounts for only about five percent of the total.

Relationship With Creditors: India has an excellent debt servicing record. U.S. and Japanese rating agencies downgraded Indian paper in 1990 as India encountered balance of payments difficulties, exacerbated by the conflict in the Gulf. However, the recent growth in official reserves and the enthusiastic response of institutional and foreign direct investors to India's economic reforms indicates creditor confidence has rallied significantly. India chose not to negotiate an Extended Fund Facility with the IMF when its Standby Arrangement expired in May 1993, citing the growth in foreign exchange reserves and ample food stocks.

5. Significant Barriers to U.S. Exports

Import Licensing: India has significantly reduced its comprehensive import-licensing requirements, which placed severe restrictions on the entry of U.S. goods and services. U.S. exports have unquestionably benefited from the relaxation of the licensing regime. As in the case of tariff reductions, licensing reforms have focused on capital and intermediate goods. A few commodity imports, including petroleum products, fertilizers, drugs, edible oils, and cereals, are still "canalized" through state trading companies. A negative list of import items still exists, affecting over one-third of all tariff lines and reducing market access for U.S. exporters. Along with consumer goods, import licenses are also required for certain electronics, pesticides and insecticides, breeding stock, most pharmaceuticals, chemicals, and products reserved for small-scale industry.

Services Barriers: The Indian government runs many major service industries either partially or entirely. Entry of foreign banks is tightly regulated, with controls placed on branching and automation. India does not allow foreign nationals to practice law in its courts. Government monopoly of life and general insurance services contributed to India's citation in 1989 under the Super 301 provisions of the 1988 Trade Act. However, foreign and domestic private firms dominate advertising, accounting, car rental and a wide range of consultancy services. Exchange controls restricting the hiring of expatriate managers and consultants have been sharply reduced. India has indicated its desire to negotiate further access under the Uruguay Round of services negotiations.

Standards, Testing, Labelling and Certification: Indian standards generally follow international norms and do not constitute a barrier to trade. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestically-produced goods.

Investment Barriers: The industrial policy introduced in July 1991 relaxed or eliminated many previous restrictions on foreign investment. Government approval for most investments has been eliminated. Foreign equity participation of up to 51 percent is now virtually automatic for "priority" industries covering most manufacturing. Depending on the project and the technology, the government may approve equity investments up to 100 percent. Several longstanding U.S. investment proposals and many new projects have been cleared under the new procedures. As a result, $2.5 billion in foreign investment was announced during the 18 months from January 1992 to June 1993, ten times the total for 1990 and 1991. In 1992, India became the 113th country to announce it would join the Multilateral Investment Guarantee Agency (MIGA). An agreement with OPIC remains in force to protect U.S. investors.

Government Procurement Practices: Indian government procurement practices are opaque and often discriminate against foreign suppliers. A preferential price margin of as much as 25 percent is available to domestic suppliers. Small-scale suppliers enjoy an additional margin of 15 percent. Defense procurement through agents is not permitted, forcing U.S. firms to maintain resident representation. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders.

Customs Procedures: Liberalization of India's trade regime has eased some of the worst aspects of customs procedures. Documentation requirements, including ex-factory bills of sale, are extensive and delays are frequent. Although requirements are non-discriminatory, the frequency of complaints indicates the need for more streamlining.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a tangle of indirect subsidies remains. Export profits are tax-exempt, and a variety of tariff incentives and promotional import licensing schemes, some of which carry export quotas, still remain.

7. Protection of U.S. Intellectual Property

The government of India contends protection of intellectual property rights (IPR) must balance the interests of IPR holders, consumers and other social interests. The government has had some difficulty 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—unduly burdened U.S. commerce. In response to this finding, in April 1992, the U.S. removed all Indian-origin chemical and pharmaceutical products from duty-free entry under the Generalized System of Preferences (GSP).

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 date 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 controls; 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.

Indian copyright law offers strong protection, but the Indian Constitution gives enforcement responsibility to 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 fortify the enforcement efforts of states with major population centers by providing training to enforcement officials. India has eliminated regulatory provisions that have discriminated against foreign trademarks. Few U.S. trademark owners have been unable to enforce their rights. Amendments to the copyright law, expected to reach Parliament late in 1993, should strengthen mandatory penalties for copyright infringement.

8. Worker Rights

a. *The Right of Association.*—India's Constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent under 25 percent of industrial and service workers, and almost none of the 70 percent of workers employed in agriculture.

b. *The Right to Organize and Bargain Collectively.*—Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by the Constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor". 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 for Employment of Children.*—Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The government of India estimates that 17 million Indian children from ages five to 15 are working. Non-governmental organization estimate that there may be more than 50 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 glass, pottery, 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 work day and 48-hour work week. This maximum is generally observed among the eight percent of the labor force employed in the formal sector. Occupational safety and health

measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors With U.S. Investment.*—Most U.S. collaborations in India are licensing agreements. U.S. equity investment exists largely in manufacturing, banking and petroleum—all sectors in which organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		201
Food & Kindred Products	1	
Chemicals and Allied Products	118	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	50	
Electric & Electronic Equipment	5	
Transportation Equipment	4	
Other Manufacturing	19	
Wholesale Trade		23
Banking		233
Finance and Insurance		(1)
Services		15
Other Industries		(2)
TOTAL ALL INDUSTRIES		479

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

PAKISTAN

Key Economic Indicators

[Billions of Pakistani rupees unless otherwise noted]

	[1] FY91	FY92	FY93 [1]
Income, Production, and Employment:			
GDP (nominal)	1,022	1,202	1,359
GDP by sector (pct.):			
Agriculture	25.7	26.2	24.4
Manufacturing	17.7	17.8	18.3
Services [2]	48.8	47.9	48.9
Real GDP Growth Rate (pct.)	5.6	7.7	3.0
Real GNP Per Capita (US$)	409	414	414
Labor Force (millions)	31.8	32.8	33.8
Unemployment Rate (pct.)	6.3	6.3	6.3
Money and Prices:			
Money Supply (M1)	304	357	404
Comm. Interest Rates (pct.) [3]	11.0	15.5	18.0
Saving Rate (pct. of GNP)	13.8	14.5	15.2
Investment Rate (pct. of GNP)	18.5	19.9	20.1
Consumer Price Index (annual pct. change)	12.7	9.6	9.1
Wholesale Price Index (annual pct. change)	11.7	9.3	8.4

Key Economic Indicators—Continued

[Billions of Pakistani rupees unless otherwise noted]

	[1]FY91	FY92	FY93[1]
Exchange Rate:			
Official (FY Avg.)	22.4	24.7	25.9
Parallel (est.)	23.5	25.5	27.9
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)	5,902	6,762	6,780
Exports to U.S	665	856	676
Total Imports (FOB)	8,385	8,998	10,040
Imports from U.S	915	971	770
Aid from U.S. (U.S. FY commitments)[4]	0	0	0
Aid from other countries (Non-military Commitments)	4,000	3,349	2,805
External Public Debt	16,573	17,361	18,423
Debt Service Payments[5]	1,316	1,513	1,519
Foreign Exchange Reserves (End of fiscal year)	492	952	348
Balance of Payments	−75	−763	−1,441

[1] Pakistan's Fiscal Year (FY) is July 1–June 30. For example, FY 93 runs from July 1, 1992 to June 10, 1993.
[2] Includes Banking, Insurance, Commerce, Housing, Storage, Transportation, Communications and other Services.
[3] Average annual interest rate on commercial bank loans to private sector borrowers.
[4] U.S. fiscal year basis. Effective October 1, 1990, new civilian assistance and all military aid for Pakistan withheld pending a presidential certification under the Pressler Amendment to the Foreign Assistance Act.
[5] Excludes interest on short-term loans and IMF charges.

1. General Policy Framework

The political uncertainty which gripped Pakistan for much of 1993 had an inevitable effect on the country's economic situation. GDP growth, which had averaged 6.2 percent per year during the 1980s and early 1990s, fell to 3.0 percent during the fiscal year which ended on June 30, 1993. Exports actually declined 1.7 percent during Pakistani fiscal year 92–93, while imports increased 9.25 percent. Official foreign exchange reserves, which had been just under $1 billion at the beginning of the year, fell precipitously and were equivalent to just a few days of import cover by mid-summer. Pakistan was facing an economic crisis by the time the caretaker administration of Prime Minister Moeen Qureshi took over in July.

The interim government introduced far-reaching economic reform measures to put the economy back on track. In a move to stimulate exports and slow down imports, the Pakistani rupee was devalued 9.5 percent against the dollar. Prices for certain key commodities were raised, and agricultural income was brought into the tax net for the first time in Pakistan's history. The government signed on to a $370 million IMF standby program and laid the groundwork for future substantial enhanced structural adjustment facility (ESAF) and extended fund facility programs. The State Bank of Pakistan (the central bank) was granted more autonomy in the formulation of monetary policy. In September, the government announced a comprehensive trade reform package, aimed at creating a more export-oriented, neutral-protection structure by simplifying the system and introducing more transparency. The top duty rate will drop from the current 92 percent to 50 percent over a three-year period, and concessions will be reduced.

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 Pakistani rupee was devalued about 9.5 percent against the dollar in July 1993, in a move designed to make Pakistani exports more competitive and to curb soaring imports. Over the past few years, 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 Paki-

stan'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 Pakistani rupee freely convertible once economic conditions make it possible to do so.

3. Structural Policies

The Pakistani economy has undergone significant reform over the past five years under successive governments. There is remarkably little difference between the basic economic policies of the two major political parties, and the general economic agenda has been to establish a dynamic, open-market economy in which Pakistani firms are competitive in both global and domestic markets. Reforms were initiated in three principal areas: trade liberalization through the reduction of tariff and non-tariff barriers; encouraging foreign and domestic private investment through deregulation and relaxation of capital and exchange controls; and the dismantling of state control over key areas of the economy through privatization. The government has sold 70 of the 115 state-owned industrial enterprises initially slated for privatization. Two previously-nationalized commercial banks were also sold to the private sector, and two of the remaining three are also scheduled to be privatized. The government is also planning to privatize two giant state-owned enterprises, Pakistan Telecommunications Corporation (PTC) and the Water and Power Development Administration (WAPDA), the state electric utility. In all cases, bidding is open to foreign investors, although foreign investment in Pakistani banks is permitted on a non-repatriable basis only.

Despite 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 prices acceptable to the government. In some cases, companies have opted not to introduce products into the Pakistani market because the prices established by the government were too low. Similar pricing policies have discouraged foreign investment in natural gas exploration and development as well. During 1993, however, the government moved to liberalize pricing policies in several sectors, including the petroleum sector, 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. These corporations may use government stocks to affect market prices for essential commodities when prices vary significantly from the government-fixed support prices. The 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. This is especially true for wheat, where 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 has undergone a similar transformation.

Pakistan has always been a regular importer of wheat. In the last several years, however, the imbalance between demand and supply necessitated imports of significant amounts of u.s. wheat. Credit guarantees from the U.S. Department of Agriculture's Commodity Credit Corporation (GSM–102) have been used to finance most of these wheat purchases. About 70 percent of the vegetable oil consumed in Pakistan is also imported. Vegetable oil imports are roughly 85 percent palm oil, mostly from Malaysia, and 15 percent soybean oil, almost all from South America. Pakistan will import $40 million in U.S. soybean oil in 1993 under a PL–480 title I program.

In Pakistani FY 1992, the government introduced a package of modest tax measures designed to expand the tax net and improve collections. Sales taxes were imposed for the first time on products at the wholesale and commercial import stages. A capacity-based system for excise duties and a fixed tax on small business incomes were implemented to reduce opportunities for evasion or collusion with tax collectors. Withholding taxes were introduced for several categories of income in order to increase and speed up the flow of revenue.

But Pakistan's inefficient tax system captures only a small proportion of the taxable revenues in the country and is heavily dependent on indirect taxes on trade and commodities. Tax collection is hindered by widespread evasion, and corruption

among tax officials is common. As a result of these factors, tax revenues have not kept pace with the growth of the economy or with government spending. Nearly 85 percent of FY 1992–93 gross revenues were generated by customs and excise duties, sales taxes, 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 ten percent of the labor force. However, the caretaker government made tax reform one of its major objectives and went after tax evaders with a vengeance. In an historic move, the government also levied taxes on the agriculture incomes of big landowners for the first time. Effective this fiscal year, the agriculture income tax is expected to bring about 1.5 percent of total landowners into the tax net. Though the actual revenue generated is likely to be modest, the move symbolizes a big step toward greater equity in the taxation structure. Although agriculture accounts for 26 percent of Pakistan's GDP, taxation of agricultural income historically has been blocked by the large landowners who dominate the national assembly.

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 1993 (the most recent statistics available) consisted of the following:

Total External Debt(US$ billions)	19.2
—Medium/Long term debt	17.9
Consortium	8.1
Multilateral	7.6
Non-consortium	1.7
2SBP Private Debt	0.5
Short-term Debt	0.4
IMF Credits	0.9

Pakistan's debt service ratio was about 23 percent of export earnings in FY 1993. Pakistan has a sound credit rating and has consistently met its debt service obligations on time, even during the foreign exchange crisis of summer 1993.

Despite the government's efforts to liberalize the trade regime and incentives to exporters in FY 1993, the trade performance fell short of government projections. Due to increased purchases of edible oil, motor vehicles and wheat, imports rose nine percent over FY 1992. Exports in FY 1993 dropped by two percent over FY 1992, primarily due to lower international prices for cotton. The increased trade deficit resulted in an increase in the current account deficit, which according to provisional estimates was $3.5 billion in FY 1993. 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, the U.K. and others) in an advantageous position vis-a-vis U.S. competitors.

5. Significant Barriers to U.S. Exports

Import licenses: In recent years, Pakistan has significantly reformed its restrictive import regime largely at the urging 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 $350 million in revenues. The numbers of items on the restricted and negative lists have recently been reduced. Items remaining on these lists are restricted for reasons of religion, national security, luxury consumption, or reciprocity, or they are capital and consumer goods banned to protect local industry.

Service 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. The government recently opened civil aviation, which had been a monopoly of the national carrier Pakistan International Airlines, to private competition. Through late summer 1993, three private carriers were flying domestically and several others were planning to enter the market. The government of Pakistan's "open sky policy", announced in 1992, liberalized access for foreign carriers to Karachi's Quaid-e-Azam international airport, but is currently slated for review and possible revision. Private firms are allowed to participate in general insurance, but foreign insurance firms must place

a portion of any service transaction with or through a local private firm or government facility. Pakistan has recently opened its life insurance sector to both foreign and private sector participation. However, foreign insurance companies are restricted to a 51 percent stake and the remaining 49 percent must be offered to public through the local stock market. Commercial insurance for imported goods must be procured through domestic carriers, except imported goods financed by USAID programs. Foreign banks in Pakistan, including three U.S. banks, are limited to three branches each (although two U.S. banks have recently been permitted to open fourth branches) and are subject to certain discriminatory tax and regulatory policies, but freely compete in both retail and corporate banking throughout the country.

Investment barriers: Pakistan's political leadership strongly supports foreign direct investment, but this message is not always fully reflected in bureaucratic policies and procedures. In FY 1991, the government eliminated all federal and provincial sanctioning requirements for new foreign investment, except those in restricted industries (see below). Other rule changes gave foreign investors better access to domestic credit facilities, eliminated controls on the movement of foreign currency, and opened up the domestic capital market to fully repatriable foreign portfolio investment.

The government has designed incentive packages to attract investment to certain "underdeveloped areas" and to key industries—biotechnology, fiber optics, solar energy equipment, computer and software, other electronic equipment, and fertilizers. Pakistan's "investment priority areas" include energy, telecommunications, transportation, agriculture-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 petroleum blending plants. Foreign private investment is also prohibited in agricultural land, forestry, irrigation, real estate (including land, housing and commercial office buildings), radioactive materials, and health. Foreign investment in domestic banks is permitted 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 exports of Pakistani goods with concessional financing and rebates of import duties and various taxes. In addition, high-value export items, such as garments, 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 rates.

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. Pakistan is not a member of the Paris convention for the protection of industrial property. It is, however, a member of the World Intellectual Property Organization (WIPO). The U.S. Treaty of Friendship and Commerce with Pakistan guarantees national and most favored nation (MFN) treatment for patents, trademarks and industrial property rights.

Copyrights: U.S. companies (i.e., book publishers, film producers) have complained that, although Pakistan is a member of the Universal Copyright Convention, its copyright law enforcement is ineffective and penalties for violation extremely weak.

Videotape piracy is widespread. The copyright statute has recently been amended to strengthen sanctions against piracy of printed texts, computer software, sound recordings and film works, and to increase penalties for infringement. Textile manufacturers in the United States have also complained of infringement of their textile designs by Pakistani firms and inadequate protection under Pakistani intellectual property laws.

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 cases in local courts. The statute permits applications for compulsory license, although such applications are infrequent. The United States has urged Pakistan to provide product patent coverage and to amend its legislation to extend the patent term and to limit the use of the compulsory license procedure.

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 increased domestic employment. Registration of a trademark in Pakistan 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.

8. Worker Rights

a. *The Right of Association.*—Pakistan's industrial workers have the right to form trade unions, but labor laws place significant constraints on their formation and ability to function effectively. Strikes are rare, and when they occur are usually illegal and short. Police do not hesitate to crack down on worker demonstrations. The right of unions to strike is severely constrained by legally-required conciliation proceedings and cooling off periods and especially 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. Trade unions of all political orientations are permitted, and the political leanings of labor leaders cover the entire spectrum. While many unions remain aloof from party politics, it appears that the most powerful are those associated with political parties. Pakistani labor federations may affiliate with international organizations: an International Labor Organization (ILO) office operates in Pakistan. Pakistan has been criticized by the ILO for not abiding by several ratified conventions.

In 1993 two petitions were filed to remove GSP benefits from Pakistan for failure to provide internationally recognized worker rights, one by the AFL–CIO and one by the International Labor Rights Education and Research Fund (ILRERF) together with the International Human Rights Law Clinic, Washington College of Law at American University. The petitions were accepted for review, a final decision is expected by mid-1994 at the end of the 1993/94 review cycle.

b. *The Right to Organize and Bargain Collectively.*—The right of workers to form associations and freely elect representatives to act as collective bargaining agents is established in law. Current laws, however, place major limitations on the extent and effectiveness of such activities. Industrial workers have the right to organize and bargain collectively under the Industrial Relations Ordinance (IRO), although large sections of the labor force do not enjoy similar rights. Agricultural workers, who are not defined as "industrial workers" under the IRO, have the right to organize and form associations, but they are not guaranteed the right to strike, bargain collectively, or make demands on employers. Under the Essential Services Maintenance Act of 1952 (ESA), normal union activities are severely restricted in sectors associated with "the administration of the state", which covers a wide range of government services and state enterprises, such as education, health care, oil and gas production, and transport.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by Pakistani law. However, bonded labor is common in the brick, glass, and fishing industries, as well as in agricultural and construction work in rural areas. As a result of ILO pressure and continuing publicity about this issue, the Bonded Labor System (abolition) Act was adopted in March 1992. This is the first law officially recognizing the existence of bonded labor in Pakistan. It outlaws the bonded labor system, cancels all existing bonded debts, and forbids lawsuits for the recovery of existing bonded debts.

d. *Minimum Age for Employment of Children.*—Despite legal limitations, child labor is common. Child labor is limited by at least four separate statutes and Article 11 of the Constitution. The confusing definition of what constitutes a "child" was improved by the National Assembly's adoption of the Employment of Children Act of 1991, which defined the child as "a person who has not completed his 14th year of age". Although the act reiterated restrictions against the employment of children

in hazardous industries, it did little to promote much-needed enforcement mechanisms and remains essentially unimplemented. While much child labor is in the traditional framework of family farming or small business, the abusive employment of children in larger industries and government business is also widespread.

e. *Acceptable Conditions of Work.*—Labor regulations in Pakistan are governed by federal statutes applicable throughout the country. These provide for, or require the provincial governments to provide for, a legal minimum wage as well as certain worker protection and welfare services. These regulations specifically do not apply to agricultural workers, to workers in Pakistan's numerous small factories with fewer than ten employees, and to the small contract groups of under ten workers into which factory work forces are increasingly divided.

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. 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 protection and entitlements. The U.S. Embassy is not aware of any case where a U.S. company has been accused of worker rights abuses.

The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector. The oil and gas industry has been declared subject to the ESA—a finding renewed at six-month intervals. The ESA 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 leave OGDC must generally wait for two years before seeking other employment in the petroleum industry in Pakistan. Many OGDC workers, however, have found employment abroad. Neither the exemption of the petroleum industry nor the total repeal of the act is likely in the near future.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1992

[Millions of U.S. dollars]

Category	Amount	
Petroleum		99
Total Manufacturing		(1)
Food & Kindred Products	1	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	−1	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		106
Finance and Insurance		(2)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		245

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.

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

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