104th Congress
1st Session } JOINT COMMITTEE PRINT

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON INTERNATIONAL RELATIONS, COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

AND THE

COMMITTEE ON FOREIGN RELATIONS, COMMITTEE ON FINANCE

OF THE

U.S. SENATE

BY THE

DEPARTMENT OF STATE

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

FEBRUARY 1995

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

U.S. GOVERNMENT PRINTING OFFICE
87-414 WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046793-4

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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.

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

BILL ARCHER,
Chairman, Committee on Ways and Means.

JESSE HELMS,
Chairman, Committee on Foreign Relations.

BOB PACKWOOD,
Chairman, Committee on Finance.

LETTER OF SUBMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 31, 1995.

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

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

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

Hon. NEWT GINGRICH,
Speaker, House of Representatives.

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

Hon. BOB PACKWOOD,
Chairman, Committee on Finance.

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

Sincerely,

WENDY R. SHERMAN,
Assistant Secretary,
Legislative Affairs.

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 seventh 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 US exports.
- *Structural Policies:* The third section examines structural policies, highlighting changes that may affect US exports to that country.
- *Debt Management Policies:* The fourth section describes debt management policies and their implications for trade with the United States.
- *Significant Barriers to US Exports and Investment:* The fifth section examines significant barriers, formal and informal, to US exports and investment.
- *Export Subsidies Policies:* The sixth section focuses on government actions, policies, and practices that support exports from that country, including exports by small businesses.
- *Protection of US 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 US capital is invested.

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

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

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 (section8) 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, 1995. 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 isavailable. The Bureau of Economic Analysis of the U.S. Department ofCommerce has supplied information on the U.S. direct investment position at the end of 1993 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
CCC—Commodity Credit Corporation (Department of Agriculture)
COMECOM—Council for Mutual Economic Assistance
EBRD—European Bank for Reconstruction and Development
EFTA—European Free Trade Association
EMS—European Monetary System
ERM—Exchange Rate Mechanism
ESAF—Enhanced Structural Adjustment Facility
EU—European Union
EXIMBANK—U.S. Export-Import Bank
FOREX—Foreign Exchange
FSU—Former Soviet Union
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
MFN—Most Favoured Nation
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)
STF—Structural Transformation Facility
UR—Uruguay Round of trade negotiations in the GATT
USD—U.S. dollar
VAT—Value-added tax
WIPO—World Intellectual Property Organization
WTO—World Trade Organization

AFRICA

ANGOLA

Key Economic Indicators

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

	1992	1993 [1]	1994 [2]
Income, Production and Employment:			
Nominal GDP	9,206	7,218	N/A
Real GDP Growth (pct.)	1.3	−23.8	N/A
Share by Sector: (pct.)			
Agriculture	6.9	6.1	N/A
Extractive	39.9	43.6	N/A
Oil/lpg	35.7	42.1	N/A
Diamonds	4.2	1.5	N/A
Manufacturing	1.5	1.9	N/A
Construction	4.0	2.8	N/A
Services	26.8	23.1	N/A
Trade	15.6	17.8	N/A
Transport/Communications	1.9	2.2	N/A
Import Duties	3.3	2.4	N/A
Net Exports of Goods and Services	−961	−1,211	N/A
Nominal GDP Per Capita (USD)	868	661	N/A
Unemployment Rate (pct.) [3]	22.3	N/A	N/A
Money and Prices:			
Money Supply (M2)	392.4	358.6	N/A
Base Interest Rate (pct.)	12.0	16.0	N/A
Retail Inflation (pct.) [3]	495.8	1,837.9	1,003.0
Consumer Price Index [3]	1,643	31,834	71,470
Exchange Rate: (NKZ/USD) [4]			
Official (end of period)	550.0	6,500.3	410,000
Parallel (end of period) [3]	6,900	106,000	610,000
Balance of Payments and Trade:			
Total Exports (FOB)	3,833	2,831	N/A
Exports to U.S. (CIF)	2,303	2,090	1,811
Total Imports (FOB)	1,988	1,415	N/A
Imports from U.S. (FAS)	158	169	187
Aid from U.S.	72	N/A	97
External Public Debt [5]	8,325	8,624	N/A
Debt Service Payments	504	583	N/A
Gold and Foreign Exch. Reserves	485.4	216.4	N/A
Trade Balance	1,845	1,416	N/A
Trade Balance with U.S.	2,145	1,921	1,624

N/A—Not available.
[1] Estimated and/or based on incomplete data.
[2] Estimate based on January–June data.
[3] Data for Luanda only.
[4] See Section 2 for exchange rate info; data as of 10/25.
[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 November 1994, has wreaked havoc.

In addition to extreme disruptions caused by conflict, a severe lack of managerial and technical talent has hampered economic performance. Misguided and ineffective attempts at socialist economic planning and centralized decisionmaking further hindered development. Of the country's productive sectors, only the oil sector, jointly run by foreign oil companies and the state oil firm Sonangol, has remained well-managed and prosperous. Angola currently produces over 580,000 barrels per day of crude, accounting for the majority of GDP, over 90 percent of exports, and over 80 percent of government revenues. The softening of world oil prices after the Gulf War, and especially in late 1993 and early 1994, has served to erode government export earnings at the same time production has been increasing.

Urban populations swollen by internally-displaced refugees have subsisted largely on food aid or parallel markets. The rural population often 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. As a result of the near-total absence of domestic production of nonoil products, importation of food and other consumer items is lucrative enough to attract traders from abroad.

The government budget, perpetually in deficit from heavy military and other nonproductive spending, ballooned to 38 percent of GDP in 1992 and 32 percent in 1993. The deficit has been financed by increasing the money supply and resorting to expensive, oil-backed short-term lending. Shortages, price controls, hyperinflation, and erosion of confidence in the national currency encourage parallel markets and widespread dependence on barter or dollar transactions.

The signature of the Lusaka Protocol on November 20, 1994 provides a hope that Angola may finally end the destructive civil war and embark on the road to economic development. The Protocol calls for a UN-monitored cease-fire, the formation of a unified army, and the demilitarization of UNITA forces. In return, UNITA will be given representation at every level of government, from the local "commune" to the national Cabinet. Both the Angolan government and UNITA have asked for a strong UN presence to oversee the implementation of the Protocol.

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.

Since 1987, the government 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 implementation. The government's 1994 Economic and Social Program has been favorably received by donor nations and financial institutions, but its execution remains largely undone.

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. bought about 74 percent of Angola's oil exports in the first quarter of 1994, 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, particularly in communications, energy, and transportation sectors.

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 kwanzas/$. The new kwanza (NKz) replaced the kwanza at par in September 1990, and in March 1991, the government devalued the new kwanza by 50 percent; further devaluations brought the official rate to NKz550/$ by April 1992. To narrow the gap between that and a parallel market rate several times higher, the government adopted a program of auctions in late 1992 and early 1993 that led to the devaluation of the currency to NKz7000/$. In March 1993, the government revalued the new kwanza to NKz4000/$, but in October devalued to NKz6500/$.

In 1994, the government began a program of foreign exchange selling in which the Central Bank and commercial banks participate. The rate which results from

"fixing" sessions is utilized as a floating official rate. By late October 1994, that rate reached 410,000 kwanzas per dollar. The parallel rate, meanwhile, has risen to over 600,000 kwanzas per dollar. Exchange houses operate legally in Luanda and other cities. Rates close to the parallel rate can be obtained both in exchange houses and in some banks in limited amounts. The government continues to declare its intention to bridge the gap between official and parallel rates via further devaluations.

3. Structural Policies

Angola's economic policy remained in flux in 1994 The government has taken 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 continues to heavily subsidize fuel, public transport, electricity and other utilities, and to regulate profit margins on the sale of numerous products.

During 1994, the government has focused on bringing down inflation and taking measures to stabilize the budget deficit. While the government has publicly declared its desire for IMF balance of payments assistance, the IMF has only agreed to begin a monitoring program of Angolan performance.

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 $4.2 billion at the end of 1993, have forced major Western export credit agencies to suspend or highly restrict cover to the country.

Total foreign debt is now probably between $9 and $10 billion, and at the end of 1993 was 119 percent of GDP and 293 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 rescheduled $669 million of Angolan debt in 1990, but only about $17 million in 1993. The government has admitted that it will be unable to lighten its debt burden, further failing an agreement with the IMF on structural adjustment of the economy.

5. Significant Barriers to U.S. Exports

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. The lack of customers with access to foreign exchange, together with Angola's poor international financial reputation, presents sizable challenges for U.S. suppliers of goods and services.

Import licenses are now routinely granted after the fact, and are more easily obtained if no government allocation of foreign exchange is involved. Most products require import licenses, but enforcement is lax. State-owned firms in some service industries have in the recent past attempted to keep out foreign competition, sometimes with success.

Angola is "off cover" for trade finance from the Export-Import Bank of the U.S. (EXIM) because of the elevated business risk in Angola and the country's extensive outstanding arrears. It is possible, however, that EXIM will consider supporting specific projects. The Overseas Private Investment Corporation (OPIC) signed an Investment Incentive Agreement with Angola in 1994. OPIC lists Angola among the countries where its investment finance and insurance programs are generally available. The U.S. Department of Agriculture (USDA) made $8 million in agricultural export loan guarantees available to Angola for the purchase of U.S. agricultural products under the P.L. 480 Title I program 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 the International Traffic in Arms Regulations, and to prohibit by Executive Order, in accordance with UN sanctions enacted in September, 1993, 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 nonlethal defense articles to the Government of Angola, with a presumption of approval of applications for export licenses for such transfers.

Foreign investment regulations enacted since the late 1980's have aimed at opening more sectors to foreign investment, and at simplifying the process for potential investors. Regulations and the lack of execution of reforms continue to prohibit or

limit foreign investment in defense, banking, public telecommunications, media, energy, and 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 nonoil export industries.

7. Protection of U.S. Intellectual Property

The Republic of Angola joined the World Intellectual Property Organization in 1985, and acceded to the GATT in 1994. To date, Angola has not adhered to any of the principal international intellectual property rights conventions.

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 former 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 legislation is still pending which 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 permitted forced labor for breaches of discipline and participation in strikes.

d. *Minimum Age of 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.*—Formal wages in the state and private sector rarely surpass the equivalent of $10 per month on the parallel market; many workers earn less than $5 per month. Most workers depend on the informal sector, second jobs at night, subsistence farming, theft, corruption, or overseas remittances to maintain an acceptable standard of living. The normal workweek is 37 hours. There is no information on adequacy of work conditions or health standards, but they are in most cases assumed not to approach Western standards, given the extreme underdevelopment of the Angolan economy and lack of enforcement mechanisms.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in Angola is concentrated in the petroleum sector. Workers in the oil sector earn salaries far greater than those in almost every other sector of the Angolan economy. Workers in the petroleum sector enjoy the same rights as those in other sectors of the Angolan economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		100
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

GABON

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1989 prices) [2]	4,212	4,316	4,293
Real GDP Growth (pct.)	−1.5	2.5	−0.5
GDP (at current prices) [2]	5,021	4,824	3,654
By Sector:			
Agriculture	466.7	450.5	326.6
Industry	2,378.4	2,443.1	2,150.7
Oil	1,720.3	1,626.1	1,558.4
Non-Oil	652.4	629.3	456.2
Construction	194.3	187.6	36.0
Services	2,631.6	2,571.3	1,484.9
Real Per Capita GDP ($:1989 base)	4,254	4,272	4,127
Labor Force (000s)	89.3	89.5	N/A
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	−11.23	−4.66	19.46
Base Interest Rate (pct.) [3]	12.0	11.5	12.0
Personal Saving Rate (pct.)	23	22	N/A
Retail Inflation (pct.)	−4.6	1.3	48.2
Wholesale Inflation (pct.)	N/A	N/A	N/A
Consumer Price Index (100=75)	283.0	286.7	400.8
Exchange Rate (USD/CFA)			
Official	265	283	530
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports (FOB) [4]	2,259.1	2,113.7	1,883.0
Exports to U.S.	927.9	940.6	[5] 543.2
Total Imports (FOB) [4]	886.2	835.2	741.1
Imports from U.S.	54.7	48.2	[5] 20.0
Aid from U.S. (000's)	168	168	N/A
Aid from Other Countries	125	12	N/A
External Public Debt	3,350.9	3,358.4	3,442.0
Debt Service Payments (paid)	351.7	119.0	463.7
Gold and Foreign Exch. Reserves	75.3	5.0	N/A
Trade Balance [4]	1,372.4	1,278.5	1,141.8

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Trade Balance with U.S.	873.2	892.4	[5] 543.2

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade.
[5] Figure is based on January–June data.

1. *General Policy Framework*

The Gabonese economy is dominated by petroleum and mining 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 a brewery, an oil refinery, and factories which produce plywood, plastics and cigarettes. The remaining manufacturing is concentrated in the 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). The civil service accounts for over 10 percent of GDP by itself. A wide range of tertiary activities ranging from banking to legal and accounting services and business consulting also figure prominently in the economy.

Since oil prices weakened sharply in 1986, the Gabonese government has been in fiscal crisis. Large deficits have led Gabon to turn to foreign creditors for financing. Following years of arrears accumulation and the January 1994 devaluation of the CFA (African Financial Community) franc, Gabon reached an agreement with the IMF in March 1994 on a stand-by arrangement and a compensatory and contingency financing facility. This was followed by Gabon's sixth Paris Club debt rescheduling, a ten-year agreement with the London Club of private creditors, a World Bank economic recovery credit, and a credit from the African Development Bank for general budget support. Despite these arrangements, government revenue remains depressed and expenditures have not been significantly reduced.

Monetary policy is tight, exercised through adjustments in the Central Bank discount rate, ceilings on net lending, and adjustments in bank reserve requirements. Given the arrangements 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 Policy*

As a member of the CFA Franc Zone, Gabon has no flexibility in monetary and exchange policies. The value of the CFA franc is currently set at 100 CFAF 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 discriminates in practice against imports from outside France in that prices for French goods can be more readily anticipated and transactions with France are simpler than those with other countries.

Although the CFA franc is fully convertible, the 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 the Central Bank before the commercial bank may complete the transaction. Generally, these controls appear to be little more than an administrative formality, and there are no known 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. Newly founded small- and medium-sized businesses (SMBs) routinely receive tax holidays for up to five years, and the government uses similar incentives without discrimination by nationality to attract oil exploration companies. The personal income tax is widely evaded. Customs duties have recently been lowered, but here too, collection is inefficient. In the past, some observers estimated the annual loss in revenues due to fraud and smuggling to be as high as $100 million.

The effects of the devaluation of the CFA franc in January 1994 and the implementation of the newly enacted budget law have yet to be fully determined. Inflation surges prompted the government to impose price controls on certain staples at the retail level at the beginning of 1994.

4. Debt Management Policies

Gabon has experienced a sharp increase in its indebtedness since the international oil price drop of 1986. External debt rose from about $1 billion in 1985 to $3.5 billion in 1993, or 96 percent of projected 1994 GDP. The country was in the grips of stagflation and the internal arrears of the government threatened to paralyze the domestic financial system. Gabon rescheduled its private debts with the London Club in 1987 and in 1994. It has been to the Paris Club six times, most recently in April 1994.

Faced with recurrent domestic political crises since late 1989, the government considered itself unable to implement necessary fiscal reforms. It suspended debt repayments on most foreign obligations in early 1990. Its history with the Paris and London Clubs is checkered, sometimes difficult. The Gabonese government was unable to meet obligations under the September 1991 Paris Club, and the agreement was "pulled back" a year later.

Negotiations with the IMF have often been protracted, with key issues being the government's lack of fiscal discipline, the need for parastatal reforms, and questions surrounding the accounting for the country's oil revenues. The January 1994 decision of the CFA countries to devalue the CFA franc was a basis for an IMF standby arrangement.Official creditors took a relatively firm stand at the Paris Club, rescheduling principal but requiring payment of previously deferred Paris Club arrears over 12 months. As of October 1994, the government had paid its first tranche of 30 percent of deferred Paris Club arrears. The London Club rescheduled loans for ten years with a two-year grace period.

5. Significant Barriers to U.S. Exports

Decrees, pursuant to the IMF standby, have lifted prohibitions against importing mineral water, household soap, cooking oil, cement and sugar. The prices paid for wheat and rice are subject to government approval. 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 that only French equipment could be used in Gabon. Perceptions such as these can be successfully challenged, although factors such as language, distance, culture, and historical ties to France remain as practical barriers to U.S. trade.

The Gabonese government has not imposed intrusive or discriminatory measures on the investments of foreign firms, which are the mainstay of the petroleum industry. Gabon signed the MIGA convention on April 15, 1994.

The Gabonese government does not always adhere to competitive bidding practices, and French technical advisers are well placed to steer contracts to French firms. In the petroleum sector, the government has organized seven bidding rounds for exploration leases since the the mid-1980's, but it continues to sign contracts outside the rounds. Off-round deals are not reserved for French firms, however, and U.S. firms have struck off-round exploration deals as well.

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.

The Gabonese government passed a revised budget law in June of 1994 which incorporates many new standards and practices relating to the country's financial activities, but the implementation and effects of the new law have yet to be determined.

6. Export Subsidies Policies

Gabon's exports are almost exclusively raw materials, subject to export taxes rather than benefiting from subsidies. The 50 percent devaluation of the CFA franc, which occurred on January 12, 1994 was in part a measure designed to make exports more competitive.

7. Protection of U.S. Intellectual Property

Gabon is a member of the World Intellectual Property Organization (WIPO) and several international intellectual property rights conventions including the Berne

Convention for Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty. However, the Gabonese government is not active in the GATT or in 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 on trademark violations. For example, U.S. ethnic cosmetic brands are sought after in Gabon, but many of those available are in fact "remanufactured" (i.e., diluted) versions which transit Nigeria en route to Gabon.

8. Worker Rights

a. *The Right of Association.*—Since 1990 reforms ended the single party political system in Gabon, the Gabonese Union Confederation (COSYGA) no longer has an exclusive right to represent workers. Unions throughout the economy have proliferated; in some cases two or more unions compete for members in the same industry. In addition, a second trade union confederation, the Gabonese Confederation of Free Unions (CGSL) now competes with COSYGA and has made significant inroads as a collective bargainer for industrial employees.

b. *The Right to Organize and Bargain Collectively.*—With the promulgation of the Constitution of 1991 the right of collective bargaining was confirmed. Before its formal passage, 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. The Labor Code of 1978 forbids forced labor. However, credible sources report cases of prisoners, mostly African expatriates, being forced to provide unpaid labor.

d. *Minimum Age of Employment of Children.*—The Labor Code of 1978 sets a minimum age of sixteen years for employment. UNICEF and other organizations have reported instances of abuse of children as domestic or agricultural help. Non-Gabonese children are most at risk.

e. *Acceptable Conditions of Work.*—Conditions of work in much of the formal sector in Gabon are reasonably good. Health and safety standards are in place, but not always observed; it is not uncommon to see workers without hardhats or protective footwear in some industrial plants. Most of the firms operating production facilities in Gabon are subsidiaries of, or are otherwise associated with, European or U.S. companies and tend to follow European or U.S. standards. Conditions in the informal sector and in Gabonese SMBs are less uniform and less favorable for the workers. The Gabonese authorities do not exercise effective monitoring of working conditions, primarily for lack of enforcement capability.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment is almost exclusively in the petroleum sector. Worker rights, working conditions, and adherence to safety standards are generally better in U.S. firms than elsewhere in the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		177
Total Manufacturing		3
Food & Kindred Products	0	
Chemicals and Allied Products	3	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		−1
Banking		5
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		184

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

GHANA

Key Economic Indicators

[Millions of cedis unless otherwise noted]

	1992	1993	1994 est.
Income, Production and Employment:			
Real GDP (1985 prices)[1]	474,600	498,300	523,200
Real GDP Growth (pct.)	3.9	5.0	5.0
GDP (at current prices)[1]	3,008,800	3,949,000	5,030,000
By Sector:			
Agriculture	1,461,005	1,887,633	N/A
Energy/Water	63,130	71,082	N/A
Manufacturing	261,538	359,361	N/A
Construction	105,216	126,369	N/A
Rents	N/A	N/A	N/A
Financial Services	108,227	150,063	N/A
Other Services	941,036	1,259,739	N/A
Government/Health/Education	N/A	N/A	N/A
Net Exports of Goods & Services	481,408	775,852	1,056,300
Real Per Capita GDP (1975 base)	491	501	511
Labor Force (000s)	N/A	N/A	5,900
Money and Prices:			
Money Supply (M2)	360,690	461,347	N/A
Base Interest Rate (pct.)	30.0	35.0	35.0
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation (pct.)	13.3	27.7	22.5
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (1985=100)	510.8	645.6	790.9
Exchange Rate (USD/Cedi)			
Official	1/520	1/780	1/1060
Parallel	1/545	N/A	N/A
Balance of Payments and Trade: (USD millions)[3]			
Total Exports (FOB)[2]	986.3	1051.0	490.9
Exports to U.S.	96.4	208.6	117.9
Total Imports (CIF)[2]	1457	1728	622
Imports from U.S.	123.8	214.5	253.0
Aid from U.S.	43.0	63.7	50.0
Aid from Other Countries	570	760	N/A
External Public Debt	4104.0	4603.3	N/A
Debt Service Payments (paid)	282.6	332.0	N/A
Gold and Foreign Exch. Reserves	388.2	420.4	N/A
Trade Balance[2]	-470.7	-677.0	-131.1
Trade Balance with U.S.	-27.4	-5.9	-135.1

N/A—Not available.
[1] GDP at factor cost.
[2] Merchandise trade.
[3] 1994 data is for six months.

1. General Policy Framework

Ghana operates in a free market environment under a civilian government headed by elected President, Jerry John Rawlings. Rawlings headed a "provisional" regime from the end of 1981 until January 1993 when democratic government, under a written constitution, was restored. A popularly-elected parliament—absent opposition parties which boycotted parliamentary elections because of a belief that the presidential vote was fraudulent—took office in January 1993. 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, on balance, maintained the reform measures and budgetary stringencies of a structural adjustment program (SAP) adopted in 1983 by the previous military government. During the period between 1983–1992 impressive progress was made in reducing the fiscal deficit and bringing down inflation and interest rates. In 1992, with elections approaching, fiscal discipline was relaxed and public sector expenditures rose, resulting again in an increased fiscal deficit. A large wage increase was granted to civil servants in an effort to maintain a stable political atmosphere during the preparations for multiparty elections. In addition, performance in the fiscal sector was further undermined by a shortfall in cocoa production and a sharp decline in world cocoa prices. Since 1993, renewed efforts have been made to reduce public sector expenditures.

In general, the SAP has been characterized by an emphasis on development of Ghana's private sector, which historically has been weak and more keenly involved in trading activities rather than domestic production of goods and services. Ghana is seeking to privatize a large number of enterprises which currently operate under government control or outright ownership. During the past year the privatization effort has intensified, resulting in 15 firms being sold by the government. The prospects for 1995 are promising, with an estimated 30 additional firms likely to be privatized. Several state-owned banks, Ghana Airways, Ghana Posts and Telecommunications and the State Shipping Corporation are also being prepared for sale.

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 has been totally revamped into a more "user-friendly" duty relief instrument. Whereas prior to 1994 no exports benefited from the scheme, during the first six months of 1994 the cedi equivalent of $325,000 has been paid to exporters. Further, the elimination of virtually all local direct production subsidies characterizes the overall greater reliance on market conditions to determine the value of goods and services introduced into channels of commerce.

Ghana relies heavily 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. However, some of the assistance is currently blocked pending further progress on privatization. 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 in December 1991; current support from the IMF takes the form of a surveillance regime monitoring developments in Ghana's macroeconomy.

2. Exchange Rate Policy

Ghana's current exchange rate policy is aimed at achieving macroeconomic stability and market-determined exchange rates. As imports have increased in recent years, the government—with the encouragement of the World Bank and the IMF—has allowed the cedi to depreciate. In March 1992, the foreign exchange auction procedure was abandoned and the exchange rate of the cedi is now determined freely in the context of an extended interbank market.

The Bank of Ghana 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 forex 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 Ghanaian 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 WTO; however its adherence to the agreement's liberal trading principles has been compromised by the need to stem the outflow of hard currency to overcome external payments difficulties. During the course of Ghana's structural adjustment program, it progressively reduced 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 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 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 structural adjustment program, in addition to reducing tariffs, the Government of Ghana has enacted various forms of personal and corporate tax relief. In 1993 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 $17,500. The top corporate tax rate for producer industries is 35 percent. Income earned by bank and other financial institutions is taxed at the same rate. The new investment code provides that income earned from investment in export industries will be taxed at 20 percent (this rate takes effect in early 1995). This should be a significant incentive for increased investment, especially in the export sector.

4. Debt Management Policies

At year-end 1993 total outstanding public and government-guaranteed external debt totalled $4.6 billion , or approximately 116 percent of GDP at the current rate of exchange. External debt increased from 26 percent of total exports of goods and services in 1992 to 37 percent in 1993. Domestic debt rose from 7.5 percent of GDP in 1992 to 12 percent in 1993. However, nominal interest and principal payments have declined significantly since 1988 and Ghana's external debt indicators show significant improvement, reflecting a change in the composition of new borrowing in favor of financing with generous grant elements. In 1990, Ghana succeeded in clearing all external debt arrears and has maintained this position ever since.

5. Significant Barriers to U.S. Exports

Import Licenses: Ghana eliminated the last vestiges of its import licensing system in 1989. Tariffs, which in some cases are very high, have replaced the import bans which until recently were applied to certain goods.

Services: Foreign investors are permitted to participate in all economic sectors save four reserved for Ghanaians in the current investment code. These activities are petty trading, the operation of taxi services, lotteries (excluding football pools) and the operation of beauty salons and barber 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. The thrust of this law is to set reasonable standards for imported food and drugs. Locally manufactured goods are subject to comparable testing, labelling, and certification requirements.

Investment: The new investment code eliminates the need for prior project approval from the Ghana Investment Promotion Center (GIPC). Registration, which is for statistical purposes, is normally accomplished within five working days. Investment incentives are no longer subject to discretionary judgments—they have been made automatic by incorporating them into the corporate tax and customs codes. Incentives include zero-rating import tariffs for plant and generous tax incentives. Immigrant quotas for businesses, though relaxed, remain in effect. In anticipation of the new and liberalized foreign investment regime, a marked increase in registration of investments has been recorded by the GIPC, from 211 in 1991, to 250 in 1992, to 438 in 1993, and over 600 so far in 1994.

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

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

6. Export Policies

The Government of Ghana does not directly subsidize exports. Exporters are entitled to a 100 percent drawback of duty paid on imported inputs used in the processing of exported goods. As noted earlier, this system, while moribund in the past, has been restructured and exporters are now able to receive this rebate. Furthermore, over the past year four bonded warehouses have been established which allow importers to avoid duties on imported inputs used to produce merchandise for export. It is expected that investors taking advantage of this duty relief arrangement will increase inward investment flows substantially over the next 2–3 years.

7. Protection of U.S. Intellectual Property

After independence, Ghana instituted separate legislation for copyright (1961) and trademark (1965) protection based on British law. In 1985 and 1992, the government passed new copyright and patent legislation respectively. Prior to 1992, the patent laws of the United Kingdom applied in Ghana. Ghana is a member of the Universal Copyright Organization, the Intellectual Property Organization and the English-speaking African Regional Intellectual Property Organization. IPR holders have access to local courts for redress of grievances. Few infringement cases have been filed in Ghana in recent years.

Patents (product and process): Patent registration in Ghana presents no serious problems for foreign rights holders. Fees for registration by local and foreign applicants vary according to the nature of the patent. Normal minimums are $50 and $150 for local and foreign applicants respectively.

Trademarks: Ghana has not yet become a popular location for imitation designer apparel and watches. In cases where trademarks have been misappropriated, the price and quality disparity between the counterfeit and the genuine would trigger warning signals to alert a potential buyer.

Copyrights: Local enforcement of foreign copyrights has improved recently. The current copyright law provided for the establishment of a copyright office, an autonomous body. In addition, the establishment of the Copyright Society of Ghana (COSGA) to protect the interests of local and foreign copyright holders has improved copyrights administration in Ghana.

Ghana is a signatory to the Universal Copyright Convention and the Bern Convention. Moreover, COSGA has signed representation agreements with similar organizations in other countries, including the United States.

The current copyright statute provides for the protection of computer software, satellite programming and cable television distribution. The duration of protection is presently lifetime plus 50 years.

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' rights to associate freely been otherwise circumscribed.

b. *The Right to Organize and Bargain Collectively.*—The IRA provides a framework for collective bargaining and protection against anti-union discrimination. Civil servants are prohibited by law from joining or organizing a trade union. However, in December 1992 the government 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. "Wildcat" strikes do, however, occur occasionally.

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 of Employment of Children.*—Labor legislation in Ghana sets a minimum employment age of 16 and prohibits night work and certain types of haz-

ardous 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 780 cedis (less than one dollar) per day. In real terms, the minimum wage is less than in 1980. The standard work week is 40 hours. Occupational safety and health regulations 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 inadequately 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 a firm in the primary and fabricated metals sector. There is also significant U.S. investment in the petroleum, seafood, mining, telecommunications, chemicals and related products, as well as 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—1993

[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	(1)	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		117

[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]

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1982 prices)[2]	2,773	1,475	1,672
Real GDP Growth (pct.)	0.4	0.1	3.0
GDP (at current prices)[2]	8,562	4,627	6,257
By Sector:			
Agriculture	2,226	1,219	1,648
Energy/Water	86	40	54
Manufacturing	1,164	626	653

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Construction	265	142	381
Rents	N/A	N/A	N/A
Financial Services	745	401	580
Other Services	942	506	883
Government/Health/Education	856	460	844
Net Exports of Goods & Services	−256	−131	−94
Real Per Capita GDP (1982 base)	123	55	72
Labor Force (000s)	11,100	11,800	12,300
Unemployment Rate (pct.)[3]	N/A	N/A	N/A
Money and Prices:			
Money Supply (M2)	34.6	28.1	15.0
Base Interest Rate (pct.)	25	27	19
Personal Saving Rate (pct.)	15.5	20.0	16.0
Retail Inflation	N/A	N/A	N/A
Consumer Price Index	27.5	41.0	13.0
Exchange Rate (USD/KSh)	32	65	45
Balance of Payments and Trade:			
Total Exports (FOB)[4]	1,033	633	1,458
Exports to U.S.	58	53	58
Total Imports (CIF)[4]	2,011	1,208	2,078
Imports from U.S.	116	104	141
Aid from U.S.	30.8	20.1	18.2
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	5,600	6,300	6,700
Debt Service Payments (paid)	265	436	450
Gold & Foreign Exch. Reserves	255	150	800
Trade Balance[4]	−978	−575	−620
Balance with U.S.	−58	−51	−117

N/A—Not available.
[1] 1994 figures are estimates based on January–June data.
[2] GDP at factor cost.
[3] The Kenyan Government does not publish unemployment figures but the 1994 is estimated at 35–40 percent.
[4] Merchandise trade.

1. General Policy Framework

Kenya's economy is basically agricultural, with a small industrial base. Agriculture contributes 26 percent to GDP, provides 75 percent of total employment and 55 percent of export earnings. The main foreign exchange earners are coffee, tea, horticulture and tourism. The industrial sector, which accounts for 14 percent of GDP, is dominated by import substitution-oriented industries, many of which are agro-based and highly dependent on the domestic market and neighboring countries. The public sector is still large in Kenya, absorbing over 45 percent of all modern sector wage employees and 40 percent of total investment.

Kenya's current policy framework emphasizes the role of the free market. Features of the economy include the use of market-based pricing incentives, a liberal investment code, and a newly liberalized foreign exchange system. Non-traditional areas which have the most potential to augment incomes and employment include horticulture, non-agricultural exports and small-scale enterprises.

Under a World Bank/IMF supported structural adjustment program in 1993–94, the government made substantial progress removing impediments to the development of a free market. Price controls were abolished, import licensing requirements removed, the foreign exchange system liberalized, and markets were opened up to competition. As a result of the economic reforms undertaken in the last two years, the economy is on the road to recovery. GDP is expected to grow by over 3 percent in 1994, after two years of stagnation (0.4 percent in 1992 and 0.1 percent in 1993).

The government brought down the annual inflation rate (month-to-month) from 101 percent in July 1993 to 13 percent in October 1994. The Central Bank of Kenya (CBK) acted swiftly in 1993 to mop up excess liquidity and improve management of the financial sector. Starting in March 1993, the CBK offered weekly sales of

$125 million worth of Treasury Bills with interest rates rising as high as 50 to 70 percent. The commercial bank cash ratio was raised steadily to reach 20 percent by the second half of 1994. A number of weak banks and non-bank financial institutions were either closed or brought under statutory management.

These policy measures worked. Money supply, which grew by 28 percent in 1993 decreased substantially to an estimated 15 percent growth in the last quarter of 1994. Commercial bank interest rates followed the trends in T-Bill interest; rising as high as 35 percent in July and then declining to below 20 percent in October, 1994. In one year, the Kenya shilling appreciated from KSh 68/USD in October 1993 to KSh 35/USD in October 1994. The government continues to rely on traditional monetary policy instruments such as the cash ratio, discount rates and open market operations.

Under a tax modernization program, the government widened the tax base, lowered income taxes and introduced the use of personal identification numbers for tax-related transactions. The government increased the range of goods and services subject to the Value Added Tax (VAT), which accounted for over 50 percent of domestic revenue in 1994. Most goods and services are subject to an 18 percent VAT. The government will lower the maximum personal income tax rate from the current 40 percent to 35 percent effective January 1995. It also reduced corporate tax from 37.5 percent to 32.5 percent in 1994.

Still in process are major government programs to privatize parastatals and reduce the size of the civil service. Fraught with difficulties and political disagreements, parastatal divestiture has been slow—only 28 out of a possible 200 have been privatized since 1991. The big parastatals, identified as strategic, are earmarked for restructuring ("commercializing") in order to make them more cost effective and efficient. A three year program to lay off 48,000 civil service workers was started in July 1993. The program is roughly on target; 16,000 workers accepted golden handshakes and left by June 1994.

2. Foreign Exchange Policy

From 1981–1993 the Kenya shilling was pegged to the SDR. In February 1993, the government suspended the Foreign Exchange Control Act paving the way for a market determined exchange rate. Exporters may now use hard currency earnings directly to meet import requirements and remit dividends. By October 1994, foreign exchange reserves at the Central Bank had risen to a record high. The officially acknowledged figure is over $800 million, or enough to cover six months of import requirements; but analysts estimate current reserves are actually closer to $1.2 billion.

Borrowing restrictions on foreign and local firms from both domestic and off-shore sources have been eliminated. Expatriates are permitted to operate foreign currency accounts in Kenyan banks. Investors may repatriate new investment earnings without Central Bank (CBK) approval. Travelers are free to settle their bills, obtain air tickets and pay airport taxes in either Kenya shillings or foreign currency. The only remaining restrictions, limitations on foreign direct equity investment and the need for approval of capital gains repatriations, may be withdrawn in the near future.

3. Structural Policies

After many years of delay, the government took bold steps and implemented economic reform measures in the 1993–94 period under a World Bank/IMF-sponsored structural adjustment program. The key goals of this program are to reduce the budget deficit and inflation, provide market-based incentives for private sector growth, and encourage investment and exports. An immediate benchmark of accomplishment is to achieve a GDP growth rate of at least five percent. To help bring the budget deficit down to 3.0 percent of GDP from the 6.5 percent level of FY 93/94 (July 1–June 30), the government committed itself to adhere strictly to budget ceilings. To improve its performance on revenue collection, the government introduced a pre-shipment import inspection program geared toward apprehending tax evaders. Inflation has come down to 13 percent.

These measures have helped to improve the country's general investment climate. Nevertheless, there are a number of broad-based problem areas which must be ameliorated to ensure that investor confidence is restored and the declining investment trend reversed. These include: rehabilitation of the deteriorating physical infrastructure, jump starting the prodigious privatization and parastatal reform process, streamlining the civil service and making it more "user friendly," continuing to curb corruption, and augmenting political stability.

In the beginning stages of the current Structural Adjustment Program (SAP), January 1993–April 1994, the government went through a turbulent economic period marked by sharp increases in prices and interest rates, and depreciation of the

Kenya shilling. The positive impacts of economic reform kicked in during the second half of 1994. Competition is now working to lower prices. Bazaars, once a rare event, have become far more common. Producers no longer require large inventories of raw materials. With no import licensing, firms can program production and forecast sales more accurately. Shortages of inputs and basic consumer items have become a thing of the past. The market for U.S. exports has substantially improved.

Despite these significant advances, numerous specific problems remain for businessmen in Kenya. Customs rules are detailed and rigidly implemented. This has complicated manufacturing-under-bond schemes. A strict constructionist attitude among customs officials often leads to serious delays in clearing both imports and exports. Foreign firms are excluded from some government tenders. Kenyan importers must use local insurance companies to insure imports. Insurance companies must reinsure part of their business with the local parastatal reinsurance company. All commodities imported into Kenya are subject to pre-shipment inspection, including price comparison, by a government appointed inspection firm. 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 including progress toward general good governance, democratization, protection of human rights and elimination of corruption. Persistent ethnic violence complicates the political landscape.

4. Debt Management Policies

For the first time in its history, at the end of 1993, Kenya had accumulated debt arrears of $715 million. This prompted the government to seek a rescheduling of outstanding official debt at the Paris club in January 1994. A multilateral agreement was concluded under non-concessional terms which rescheduled arrears accumulated from December 1991–1993. Repayment is scheduled over seven years, starting with a grace year in 1994 and ballooning to 25 percent in the later years of the period. Specific bilateral agreements have been considered and granted throughout 1994. This rescheduling will help improve Kenya's capital account and has added to Kenya's international credibility. It is notable that Kenya neither asked for, nor was granted, concessional terms. Kenya did not seek a London Club rescheduling. Private arrears accumulated during the 1991–93 period (approximately $70 million) were sufficiently small they could be repaid directly. Kenya could use some of its large stock of foreign exchange reserves ($800 million–$1.2 billion) to pre-pay international debt.

Kenya's stock of international debt was $6.7 billion in 1994 and annual debt payments are in the $400–500 million range. Under current conditions of an appreciating currency and large reserves, this debt is manageable. Earlier exchange controls, which provided incentives for Kenyans to keep their hard currency out of the official system, made debt management more problematical. Kenya's adherence to the IMF Article VIII, which became effective in 1994, forbids Kenya from returning to exchange controls.

5. Significant Barriers to U.S. Exports

The liberalization of import controls and foreign exchange rates are major positive steps towards removal of trade barriers. As a part of these reforms, in 1994 the government instituted pre-shipment inspection for quality, quantity and price for all imports with F.O.B. value of more than $1,613. Inspection is done by a government appointed inspection firm which has offices at major trading points such as New York, Baltimore, Chicago, New Orleans and Houston. Goods arriving in Mombasa without pre-inspection documentation are subject to inspection at the Port, for an additional fee. This requirement has contributed to major back-ups in port operations during 1994. Importation of animals, plants, and seeds is subject to quarantine regulations. Special labelling is required for condensed milk, paints, varnishes, and vegetable/butter ghee. In addition, imports of prepacked paints and allied products must be sold by metric weight or metric fluid measure.

Commercial banks are required to ensure that importers have submitted Import Declaration forms, invoices, a Clean Report of Findings, and a copy of the customs entry form before releasing foreign exchange. Prior exchange approval must be obtained for imports of machinery and equipment which are regarded as part of equity capital or are purchased with borrowed funds. The Clean Report of Findings is also required by authorized banks before a shipping guarantee can be issued. All goods purchased by importers in Kenya must be insured with companies licensed to conduct insurance business in Kenya.

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

Government procurement for ordinary supplies as well as materials and equipment for public development programs is a significant factor in Kenya's total trade. The hand of government is particularly 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 of these are purchased through Crown Agents, a British quasi-governmental entity. Sales of major import items are frequently tied to the source country providing official development finance.

Government procurement is done through tender boards. The main boards are the Central Tender Board, Ministerial Tender Boards, the Department of Defence Tender Board, and District Tender Boards. The Kenyan government supplies manuals 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.

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

Practice often differs from government regulations. Tenders have not infrequently been awarded to uncompetitive firms in which government officials have a significant interest. Medical tenders are a frequent case in point. The incidence of corruption, particularly at lower levels, has increased in the last year to compensate for the closure of key "political banks" which were previously the major conduits for ill-gotten gains. This trend affects the allocation of government tenders for construction and procurement. Prosecution of corrupt officials above the lowest level has been rare, but may be on the increase. Recent charges levied against the Goldenberg/Exchange Bank operation are a sign of progress. Corruption involving contract awards is 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. Additionally they are required to submit data and information about their distributors. The Monopolies, Prices and Trade Restriction Practices Act sets a legal framework for dealing with restrictive and predatory practices which might inhibit competitive markets, and controls mergers, takeovers of enterprises, and monopolies. This Act was most recently cited by the government as a warning to oil companies against collusion in the newly liberalized petroleum market.

6. Export Subsidy and Tax Policies

In April 1993, the Kenyan government scrapped an export compensation scheme which officially paid up to 20 percent of value to manufacturers whose products had less than 70 percent import content. This scheme was a major tool used by the Goldenberg gold/diamond company (now under investigation) to extract even higher payments of 35 percent from the government for questionable, if documented, exports. At the same time, another controversial Pre-Export Financing scheme was eliminated. In their place, the government enacted a duty/value added tax remission facility which allows exporters to purchase tax-free inputs locally. This facility is designed to be less "corruptible" but is also less lucrative for exporters.

The government grants a one-time 85 percent investment allowance tax deduction for the cost of industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa. Thirty-five percent deduction is allowed for investments within these cities. This provision reduces income taxes due during the start-up phase of a project.

Exporters to the Preferential Trade Area (PTA) regional market (19 countries of eastern and southern Africa) receive tax advantages and have the option to trade in local currencies. The market has a total population of 190 million and a GDP of $50 billion. The aim of the PTA is to eventually establish a common market with no barriers across member countries' borders. Kenya is also a signatory of major

international trade agreements such as the United Nations Conference on Trade and Development (UNCTAD), the Lome Convention and the GATT (soon to be the World Trade Organization). As such, Kenya is subject to various requirements agreed to under these umbrellas.

The government has two major export institutions—the Export Processing Zones Authority and the Export Promotion Programs Office—which coordinate export promotion activities. There is one private Export Processing Zone (EPZ) which caters to over eleven companies. This zone, the Sameer Industrial Park, is a subsidiary of Firestone East Africa. Two government sponsored EPZs, one in Mombasa and another near Nairobi, are nearing completion.

The government has progressively reduced the corporate tax rate from 45 percent in the 1980s to the current 35 percent. Withholding tax (ranging from 12.5 percent 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 (OECD) model for the prevention of double taxation. There is no tax treaty with the United States.

7. Protection of U.S. Intellectual Property

Kenya is a member of the Paris Union International Convention for the Protection of Industrial Property (Patents and Trademarks), together with the United States and 80 other countries. Businesses and individuals from signatory states are entitled to protection under this convention, including national treatment and "property rights" recognition of patents. Although a unified system for the registration of trade marks and patents for Anglophone Africa was signed in 1976, implementation has been stagnant due to the lack of cooperation among the signatory states. Another mechanism to protect patents, trademarks, and copyrights is embodied in the African Intellectual Property Organization. Its enforcement and cooperation procedures remain untested.

Kenya also is a member of the African Regional Industrial Property Organization. The government of Kenya accepts binding international arbitration of investment disputes between foreign investors and the state.

In 1990, the Kenyan government established an Industrial Property Office (KIPO) for granting industrial property rights, screening technology transfer agreements and licenses, and providing patenting information to the public. Models for patents and utilities and industrial design certificates are available through this office. It also acts as a receiving office for international applications. An independent national patent law to replace pre-independence British procedures was also enacted in 1990.

In March 1994, KIPO issued the first patent certificate under the Kenya Industrial Property Act to three Kenyan scientists for their work in the development of a tick resistance vaccine, Novel Tick Resistance Antigenic Indicators (TRAI). In its fourth year of operation, KIPO has received 127 patent applications and 38 industrial designs which are being processed. Ninety-three of the patent applications are foreign and 34 are local. Fifteen of the 38 industrial design applications are local.

Protection of copyrights is not particularly extensive or efficient in Kenya. The Copyright Act of 1989 provides for protection from audio copyright infringement. Video copyright infringements are not covered by the law, and are 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.*—Other than central government civil servants and university academic staff, all workers are free to join unions of their own choosing. 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 1993 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 (May 1) ceremonies walkout by the Minister for Labor, the arrest of the COTU secretary-general and his senior associates, 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 COTU officers. These 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 as of November 1994, but no international group has 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 several strikes illegal. A case in point was the KNUT strike in July 1993, for which the required notice had been given. It was averted at the last minute. Others included 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, 1993. 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 (ICFTU). COTU affiliates are free to establish linkages to international trade secretariats of their choice.

b. *The Right to Organize and Bargain Collectively.*—The 1962 Industrial Relations Charter, executed by the government, COTU and the Federation of Kenya Employers, gives workers the right to engage in legitimate trade union organizational activities. This charter does not have the force of law.

Both the Trade Disputes Act and the Charter authorize collective bargaining between unions and employers. Wages and conditions of employment are established by negotiations between unions and management. In 1994, government wage policy guidelines which limited salary increments were relaxed as was the employers' authority to declare workers redundant. Collective bargaining agreements must be registered with the Industrial Court. The Export Promotion Zone Authority has determined that local labor laws, including the right to organize and bargain collectively, will apply in EPZs. In practice, exemptions and conditions have been granted within the Zones, giving rise to public criticism in 1994.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution proscribes slavery, servitude, and forced labor. Under the Chiefs' Authority provisions, people may be required to perform community service in an emergency but there are no known recent instances of this practice. People so employed must be paid the prevailing wage. The International Labor Organization's (ILO) committee of experts has found this provision of Kenyan law in contravention of ILO conventions 29 and 105 on forced labor.

d. *Minimum Age for Employment of Children.*—The Employment Act of 1976 proscribes the employment of children under the age of 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 to 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 underemployment, the employment of children in the formal wage sector is not a significant problem.

e. *Acceptable Conditions of Employment.*—In 1994, minimum unskilled worker salaries averaged less than thirty dollars per month. The normal work week, by law, is limited to 52 hours, except for nighttime employees (60 hours) and agricultural workers (excluded). Non-agricultural employees receive a minimum of one rest day in a week, one month's annual leave, and sick leave. By law, total hours worked (i.e., regular time plus overtime), in any two-week period for night workers cannot exceed 144 hours; the limit is 120 hours for other workers. 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. Inspection of work sites continued to improve, although "whistle blowers" are not protected. Kenya's worker compensation regulations do not yet comply with the provisions of ILO Convention No. 17.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		28
Total Manufacturing		32
Food & Kindred Products	3	
Chemicals and Allied Products	13	
Metals, Primary & Fabricated	([1])	
Machinery, except Electrical	0	
Electric & Electronic Equipment	3	
Transportation Equipment	([1])	
Other Manufacturing	1	
Wholesale Trade		1
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		([1])
Other Industries		0
TOTAL ALL INDUSTRIES		104

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

NIGERIA

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted][1]

	1992	1993	1994[2]
Income, Production and Employment:			
Real GDP (1984 prices)	5,632	4,542	N/A
Real GDP Growth (pct.)[3]	−0.41	−0.19	N/A
GDP (at current prices)	31,793	37,023	N/A
By Sector: (1984 prices)			
Agriculture	2,131	1,730	N/A
Energy/Water	775	588	N/A
Manufacturing	475	385	N/A
Construction	107	85	N/A
Rents	145	115	N/A
Financial Services	490	396	N/A
Other Services	956	772	N/A
Government/Health/Education	553	470	N/A
Net Exports of Goods & Services	N/A	N/A	N/A
Real Per Capita GDP ($US)[3]	618.9	488.4	N/A
Labor Force (millions)	42.8	N/A	N/A
Unemployment Rate (pct.)[4]	3.2	3.4	N/A
Money and Prices:			
Money Supply (M2)	7,386	8,843	9,534
Base Interest Rate (pct.)	25.7	27.0	21.0
Personal Savings Rate (pct.)	15.5	16.4	12.0
Retail Inflation (pct.)	46.0	57.2	N/A
Wholesale Inflation (pct.)	N/A	N/A	N/A
Consumer Price Index	478.4	751.9	985.9
Exchange Rate (USD/Naira):			
Official (annual average)	0.06	0.04	0.05
Parallel	0.05	0.02	0.02

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted] [1]

	1992	1993	1994 [2]
Balance of Payments and Trade:			
Total Exports (FOB) [5]	11,886	9,923	N/A
Exports to U.S.	5,074	5,301	3,970
Total Imports (CIF) [5]	7,204	6,665	N/A
Imports from U.S.	1,001	891	524
Aid from U.S.	17	23	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	27,500	28,700	N/A
Debt Service Payments	2,700	1,600	N/A
Gold and Foreign Exch. Reserves	799	806	N/A
Trade Balance [5]	4,682	3,258	N/A
Trade Balance with U.S.	4,073	4,410	3,446

N/A—Not available

[1] All dollar figures are based on official exchange rates and in some places reflect exchange rate fluctuations and not internationally recognized development assessments.

[2] 1994 figures are estimates based on January–June data.

[3] In constant 1984 Naira, GDP grew 3.6 and 2.9 percent in 1992 and 1993, while GDP per capita in current dollars was $349 and $398 for those years.

[4] CBN figure; Embassy estimates 28 percent unemployment.

[5] Merchandise trade.

1. General Policy Framework

Nigeria is Africa's most populous nation and the United States' fifth largest oil supplier. It offers investors a low-cost labor pool, abundant natural resources, and the second largest market in sub-Saharan Africa. Nigeria's crucial petroleum sector provides the government with over 95 percent of all foreign exchange earnings and about 75 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 exceeding seven percent of GDP since 1990. Proposals to reduce the deficit include reducing large government fuel price subsidies (the official price of gasoline was equivalent to about 55 U.S. cents per gallon in October 1994), shelving a number of government projects which are of doubtful economic value, and reducing leakages from government income due to corruption.

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 have been 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 conjunction with his 1994 budget announcement, head of state General Sani Abacha announced the abandonment of most 1986 Structural Adjustment Program reforms, and instituted tight government control over key economic variables. The new measures include: fixing the value of the naira at 21.99 per dollar; instituting strict and comprehensive foreign exchange and import controls; eliminating the legal parallel foreign exchange market; and setting caps on interest rates chargeable on loans and deposits/savings accounts.

The new economic policy regime created by these measures has already had far reaching and damaging effects on the Nigerian economy. Not only have these measures discouraged investment in Nigeria, but companies already present find it increasingly difficult to operate profitably, while official statistics show nonoil exports down sharply.

2. Exchange Rate Policy

In the first quarter of 1994, Nigeria changed its foreign exchange regime back to the highly controlled system in force prior to the structural adjustment reforms in the late 1980's. The legal parallel foreign exchange market, which operated through licensed exchange bureaus, was abolished, and the official interbank foreign exchange market (IFEM), operated by the Central Bank, became the only authorized source of foreign currency in Nigeria for companies and individuals. At the mid-year

budget review, bureaux de change were reauthorised to conduct limited foreign exchange transactions at the official rate plus ten percent. The official exchange rate has been held at 21.99 naira/dollar since April 1993, but the parallel rate had climbed to over 70 naira to the dollar by October 1994.

While there are no restrictions on imports of hard currency into Nigeria, foreigners are obliged to declare such holdings upon arrival, and must maintain records of naira purchases from authorized banks in Nigeria in order to take their remaining foreign currency out of the country. The 1994 regime for allocating hard currency at the IFEM is sharply limiting official remittances. Only 250 million dollars was allocated in the 1994 budget to the so called invisibles account (including remittances for services and other nonmerchandise transfers). This amount can largely be absorbed in meeting remittance needs of the international airlines alone. The result has been a de facto clampdown on the repatriation of corporate profits.

3. Structural Policies

As stated in the December 1989 circular, "Industrial Policy of Nigeria," the government maintains a system of tax incentives to foster the development of particular industries, to encourage firms to locate in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials. The Industrial Development (Income Tax Relief) Act of 1971 provides incentives to "pioneer" industries, that is, industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a nonrenewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area.

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 in almost all cases to require 60 percent Nigerian ownership.

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 1993, total external debt (not including arrears) had reached $28.7 billion, more than Nigeria's entire GDP. Debt service due is projected to be four to five billion dollars annually for the next several years.

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 exceeded $30 billion as of October 1994.

During the period 1986 to early 1992, Nigeria reached three standby agreements with the IMF. The most recent agreement was approved in January 1991 and expired in April 1992. Talks with the IMF since then have failed to result in a new agreement.

Nigeria's most recent rescheduling agreement with the Paris Club expired at the same time as its standby agreement with the IMF, and debt repayment obligations have grown significantly. Nigeria's record on debt repayment, meanwhile, has also deteriorated. In 1992, Nigeria made debt service payments of $2.7 billion, against interest and principal payment obligations of $5 billion. Faced with similar obligations in 1993, external debt service payments were only $1.6 billion and the budgeted debt service payments for 1994 are $1.8 billion.

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 1994, the importation of approximately 20 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 re-

duced availability of grains has raised prices for both banned commodities and locally produced substitutes.

U.S. products are also hampered by high tariffs as follows: sorghum, 100 percent; cigarettes, 200 percent; cotton, 60 percent; wheat, previously banned and now taxed at 10 percent; and passenger vehicles, from 30 to 100 percent. Other import restrictions apply to aircraft and ocean-going vessels. Guidelines mandate that all imported aircraft and ocean-going vessels shall be inspected by a government authorized inspection agent. In addition, performance bonds and offshore guarantees must be arranged before down payments or subsequent payments are authorized by the Ministry of Finance.

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.

An expatriate quota system is in place, and government approval is required for residency permits for expatriates occupying positions in local companies. The number of expatriate positions approved is dependent on the level of capital investment, with additional expatriate positions considered on a case by case basis. In the past, this system has caused relatively few problems, but in 1994 U.S. firms reported increasing difficulties in securing and renewing the necessary permits.

Nigeria generally uses an open tender system for awarding government contracts, and foreign companies incorporated in Nigeria receive national treatment. Approximately five percent of all government procurement contracts are awarded to U.S. companies. 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 nonoil 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 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 Paris Convention. In 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO). Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Despite active participation in international conventions and the apparent interest of the government in intellectual property rights issues, little has been done to stop the widespread production and sale of pirated tapes, videos, computer software and books in Nigeria.

The Patents and Design Decree of 1970 governs the registration of patents. 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 detriments 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 intel-

lectual property rights protection are substantial, although the exact cost is difficult to estimate. The majority of the sound recordings sold in Nigeria are pirated copies and the entire video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is also common.

8. Worker Rights

a. *The Right of Association.*—Nigerian workers, except members of the armed forces and employees designated essential by the government, may join trade unions. Essential employees include, firefighters, police, employees of the Central Bank, the security printers (printers of currency, passports, and government forms) and customs and excise staff. However, unlike many other countries with Essential Services Acts, utilities, the national airline, public sector enterprises and the post office are not considered essential services, are unionized, and may strike. In May 1993 the government promulgated the Teaching Essential Services Decree, declaring education an essential service and calling for the dismissal of teachers who participate in a strike longer than one week in duration. Attempts to enforce the decree proved unworkable, and it was subsequently withdrawn. Under Nigerian labor law, any nonagricultural enterprise which has more than 50 employees is obliged to recognize trade unions and must pay dues or deduct a checkoff for employees who are members.

The government has decreed a single central labor body, the National Labor Congress (NLC), and deregistered other unions. On August 24, 1994 the government dismissed the executives of the NLC, and the two leading petroleum sector unions and appointed "administrators" to run them. It has attempted to prevent withholding dues from oil industry union members' paychecks.

b. *The Right to Organize and Bargain Collectively.*—The labor laws of Nigeria permit the right to organize and the right to bargain collectively between management and trade unions. Collective bargaining is, in fact, common in many sectors of the economy. Nigerian labor law further protects workers against retaliation by employers for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court, which handles complaints of antiunion discrimination. The NLC has complained, however, that the judicial system's slow handling of labor cases constitutes a denial of redress to those with legitimate complaints. The government retains broad authority over labor matters, and can intervene forcefully in labor disputes which it feels contravene its essential political or economic programs.

c. *Prohibition of Forced or Compulsory Labor.*—Nigeria's 1989 Constitution prohibits forced or compulsory labor, and this prohibition is generally observed. However, on August 24, 1994 the government promulgated the State Security (Detention of Persons Amendment) Decree, number 11. This supersedes an earlier decree which allowed persons to be detained for successive periods of six weeks without charge and now allows for persons to be detained for periods of up to three months without charge. The International Labor Organization (ILO) has noted that with the 1989 Constitution suspended and Decree 11 in effect, Nigeria may not be able to enforce the ILO convention against forced labor in the absence of constitutional guarantees.

d. *Minimum Age of Employment of Children.*—Nigeria's 1974 Labor Decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be required to work for longer than four consecutive hours or permitted to work for more than eight hours in one day. The Labor Decree allows the apprenticeship of youths age 13 to 15 under specific conditions. Apprenticeship exists in a wide range of crafts, trades, and state enterprises. Service of apprentices over the age of 15 is 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 reside.

e. *Acceptable Conditions of Work.*—Nigeria's 1974 Labor Decree established a 40-hour workweek, prescribed two to four weeks of annual leave, and set a minimum wage. The last government review of the minimum wage, undertaken in 1991, raised the monthly minimum wage from 250 naira ($11.36) to 450 naira ($20.45). Nigerian labor law stipulates that workers are to be paid extra for hours worked over the legal limit. The code also states that workers who work on Sundays and statutory public holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. A 1974 labor decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in petroleum, chemicals and related products, primary and fabricated metals, machinery, electric and elec-

tronic 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		50
Food & Kindred Products	(1)	
Chemicals and Allied Products	15	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	(1)	
Other Manufacturing	1	
Wholesale Trade		(1)
Banking		(1)
Finance and Insurance		2
Services		5
Other Industries		0
TOTAL ALL INDUSTRIES		527

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1990 prices) [2]	83.7	74.1	67.6
Real GDP Growth (pct.)	−2.1	1.1	1.9
Real GDP (at current prices) [2 3]	111.0	111.8	115.2
By Sector:			
Agriculture	4.5	4.8	4.9
Mining	9.3	9.2	9.2
Energy/Water	4.5	4.3	4.2
Manufacturing	26.1	24.5	23.8
Construction	3.6	3.4	3.3
Wholesale/Retail Trade	17.2	16.9	16.5
Financial Services	17.2	17.2	17.3
Other Services	2.3	2.3	2.5
General Government	16.6	16.1	15.8
Net Exports of Goods & Services	1.3	1.7 .08	
Real Per Capita GDP (1985 rand)	2,412	2,084	N/A
Labor Force (millions) [4]	12.0	12.3	12.6
Unemployment Rate (pct.) [4]	40.0	46.0	46.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	10.8	3.9	17.4
Prime Overdraft Rate (pct./year-end)	20.5	16.9	17.25
Personal Savings To Disposable Income (pct.)	3.8	4.7	4.4
Producer Price Index (year-end pct. change)	8.3	6.6	7.9
Consumer Price Index (year-end pct. change)	13.9	9.7	8.2
Exchange Rate ($:rand/year avg.)			
Commercial Rand .35 .31 .28.			

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Financial Rand .21 .23 .22.			
Balance of Payments and Trade:			
Total Exports (FOB)	23.5	24.0	6.2
Exports to U.S.	1.7	1.6	0.9
Total Imports (FOB)	18.2	18.0	5.0
Imports from U.S.	2.4	2.4	1.0
Aid from U.S. (millions/FY)	80.0	80.0	166.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	17.3	16.7	N/A
Debt Service Payments (paid)	1.6 .8	N/A	
Gold and FOREX Reserves (gross)	11.2	11.1	9.7
Balance of Payments on the Current Account	1.4	1.8 .7	
Trade Balance with U.S.	−0.7	−0.1	−0.7

N/A—Not available.
[1] 1994 figures are all estimates based on monthly data as of June 1994.
[2] GDP at factor cost.
[3] Department of Commerce statistics.
[4] Statistics depending on population data are unreliable; official black population and unemployment rates are understated. While the Central Statistical Services no longer attempts to quantify black unemployment, most economists believe the rate is in excess of 40 percent. Unemployment among other racial groups is lower.

1. General Policy Framework

South Africa is a middle-income developing 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 recent 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 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 was low and declining, outstripped by high average wage increases;

—The government intervened extensively in the economy to protect inefficient industries, provide employment to its constituents, and combat foreign economic sanctions;

—Foreign and domestic investment was 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 1.1 percent growth. Two principal factors, including a substantial increase (six percent) in the volume of merchandise and net gold exports and a significant recovery in agricultural production made a major contribution to this revival in economic activity. Although the agriculture sector accounted for most of the growth during the early part of 1993, the increase in economic activity spread to other sectors in the second half resulting in growth in the mining, manufacturing, electricity, gas and water, and commerce and finance areas. In 1994, the economy got off to a sluggish start due to uncertainty surrounding the election and transitional period and a large number of public holidays. Economists estimate that the South African economy will register 2–2.5 percent growth over the full year of 1994.

The new South African government has already taken steps to address some of the structural problems within the economy. While there is a long way to go in eliminating apartheid's legacy and meeting the black community's aspirations, some

progress has been made in reducing economic distortions caused by the past's racial policies. Legal restrictions which prevented black South Africans from owning businesses, obtaining skilled jobs, or living in major urban centers have been lifted. Black trade unions have been recognized. Spending on 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. Nevertheless, high growth in the money supply along with large increases in food prices have resulted in higher producer and consumer inflation which are now approaching double digits.

Traditionally, South Africa has adopted conservative fiscal policy. In the late 1980's, however, revenues lagged behind spending, leaving large deficits to be financed through borrowing and putting pressure on private capital markets. After 1990, the government of F.W. de Klerk adopted more restrictive fiscal policies, and the new Government of National Unity (GONU) has continued a fiscally conservative approach. Although the 1993/94 budget ended in a deficit of R31.4 billion (approximately 8.6 percent of GDP as spending outpaced revenues), estimates for the deficit before borrowing in fiscal 1994/95 are somewhat lower reaching R29.3 billion, roughly 6.8 percent of GDP. (These figures are based on a GDP growth rate of 3 percent). The GONU says it will resist pressure 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. Privatization of some state assets has gained favor more recently, particularly as a way to reduce the government's high level of indebtedness and to pay for the new government's Reconstruction and Development Program (RDP).

2. Exchange Rate Policy

Faced with large scale capital outflows in 1985, the Reserve Bank reimposed comprehensive exchange controls, including a dual exchange rate. 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 ailing foreign reserve position of the country and socio-political uncertainties caused the nominal effective exchange rate of the commercial rand to depreciate by 4.1 percent in the first quarter of 1994 and by a further 8.3 percent by the end of July 1994. (The real effective exchange rate of the rand declined by 7.5 percent from December 1993 to July 1994). In this period the rand depreciated against all of the currencies of South Africa's main trading partners. However, it also depreciated fairly sharply against the U.S. dollar and British pound over this period. Concern over political developments, labor unrest and profit-taking led to a sharp depreciation of the financial rand in the beginning of 1994 to an all time low of R5.58 per dollar in April 1994. However, when it became apparent that the political transition would be achieved peacefully, the finrand appreciated again to R4.55 per dollar in May. The most recent data put the discount of the financial rand to the commercial rand at about 10 percent.

Pressure and speculation on abolishing the dual currency system has been intense. Nevertheless, Bank Governor Chris Stals and other leading economists dispute its eminent abolition.

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 1994/5 budget kept the maximum personal income tax rate at 48 percent on incomes above R80,000 for married and R56,000 for single taxpayers. However, it reduced the corporate primary income tax rate to 35 percent from an earlier rate of 40 percent. Corporations' secondary tax rate on dividends was nevertheless increased by 10 percent. The 1994/95 budget also imposed a "once-off" levy of 5 percent on all income (both corporate and individual) over R50,000 to pay for transition cost overruns.

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 has continued to improve in recent years. At the end of 1993, foreign debt amounted to $16.7 billion, with the private sector accounting for about 10.7 billion of this total. The ratio of total foreign debt to GDP in 1993 was 14.2 percent, and interest payments to total export earnings was 7.1 percent. Debt repayment obligations in 1994 are estimated to be R4 billion to R5 billion, although increasing access to international capital markets should allow South Africa to refinance at least one half of that debt.

In 1985, faced with large capital outflows, intense pressure against the rand, and a cutoff of its access to 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 a democratically elected government, South Africa is now eligible for Bank loans. Moreover, after some twenty-seven years of relative economic isolation, South Africa became another IMF borrower country. In December 1993, the IMF approved the government's application for a $850 million drought reserve loan. Gaining access to the drought facility enabled 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 40 percent on some items, are the most significant barriers for U.S. exports. The Department of Trade and Industry is attempting to simplify its system of tariffs, but some tariffs have been increased in the process, including hikes of up to 180 percent on certain steel products. Local content requirements also apply in certain industries, most notably in motor vehicle manufacturing.

The lifting of Title III sanctions in the Comprehensive Antiapartheid Act eased restrictions on the import of certain U.S. products into South Africa and permitted U.S. nationals to make new investments in South Africa. With the removal of the arms embargo against South Africa in May 1994, U.S. firms may now export to the South African police and military organizations, excluding Armscor/Denel and any of their subsidiaries. The State Department currently maintains a denial policy on these firms pending the satisfactory resolution of a criminal case involving Armscor. At this time, American firms are prohibited from trading munitions list items with these companies.

Responsibility for administering controls on dual use nuclear technology rests with the Directorate of System Co-ordination with the Department of Trade and Industry. Legislation on the regulation of such technology is however still pending and has only recently been published for public comment (October 14, 1994).

6. Export Subsidies Policies

South African 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 promotion; 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. The South African Government recently revised GEIS on October 1, 1994. Under this most recent revision, subsidies for fully manufactured products will be lowered from 25 percent to 14 percent of export value on October 1; 12 percent on April 1, 1996 and 10 percent on April 1, 1997. The subsidy for partially manufactured goods will drop from 12.5 percent to 3 percent on October 1; 2 percent on October 1, 1996 and zero a year later. The subsidy for raw materials will drop from 7.5 percent of export value to 2.5 percent on October 1 and below 2 percent on April 1, 1995. The subsidy for raw materials will drop from 7.5 percent of export value to 2.5 percent on October 1 and below 2 percent on April 1, 1995.

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. Income tax allowances are also provided for expenses incurred in promoting or maintaining an export market. The Export Marketing Assistance Scheme, a limited program, provides assistance for export market research and trade fairs and missions. The Structural Adjustment Program provides export incentives tailored to specific industries, most notably motor vehicles and textiles and clothing. Under the Regional Industrial Development Program, a new or relocating business can apply for establishment incentives or tax breaks 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) was barred in the past by a resolution of that organization, but it remains a member. As with South Africa's participation in all UN specialized agencies, its status is currently under review. The country is also party to the Paris and Berne Conventions. South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, including the United States. There is no discrimination between domestic and international holders of intellectual property rights. The basic objective of South African government policy with respect to foreign intellectual property rights holders is to secure access to foreign technology and information. Copyright legislation 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 programmes 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 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 also 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."

In addition, trademark concerns are becoming increasingly evident. Local companies and street vendors often "own" the trademarks of internationally known concerns. New trademark legislation was passed in January 1994 and is now awaiting implementation regulations.

8. Worker Rights

a. *The Right of Association.*—Current South African labor law entitles all workers in the private sector to join labor unions of their choosing. However, the patchwork nature of that law effectively inhibits trade union activity. The result is an uneven and sometimes volatile labor relations climate, in which trade unions must rely as much on their own organization and strength as on their legal rights to achieve their objectives.

The recently-elected government of national unity is drafting a new Labor Relations Act designed to consolidate and simplify South African labor law. The new law will conform to the right of freedom of association declared in the interim constitution, and promote quick and effective industrial dispute resolution by clarifying the rights and responsibilities of workers and employers.

Historically, public sector employees have been legally prohibited from striking. The 1993 passage of a Public Sector Labor Relations Act, while clarifying the collective bargaining process for public sector employees, still sharply restricts strike activity. Until a transparent and fair system of dispute resolution is in place, the public sector will continue to be a labor relations flashpoint.

b. *Right to Organize and Bargain Collectively.*—The South African government does not interfere with union organizing in the private sector and has generally not intervened in the collective bargaining process. South African law prohibits discrimination by private sector employers against union members and organizers.

In spite of recent legislative changes, collective bargaining still does not apply to farm workers and domestic workers. Recent passage of the Public Sector Labor Relations Act (PSLRA) clarifies dispute resolution in the public sector, but has been criticized by the Congress of South African Trade Unions (COSATU) as undermining collective bargaining by unnecessarily restricting public sector strike activity. That said, the Ministry of Labor's plans to consolidate the PSLRA into a single labor relations act has been resisted by independent public sector unions and associations.

Private mediation services are available and have been voluntarily resorted to by management and black trade unions to resolve industrial disputes. The Labor Relations Act establishes an industrial court to rule in labor-management disputes. The most common complaints filed with the court concern dismissals, followed by unfair labor practices. A labor court of appeals oversees the industrial court and can overturn its decisions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is specifically prohibited by the interim constitution.

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

e. *Acceptable Conditions of Work.*—There is no national minimum wage in South Africa. The Labor Relations Act provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. At present over 100 industries covering most non-agricultural workers come under the provisions of the act. The Occupational Safety Act sets minimum standards for work conditions and employment.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		544
Food & Kindred Products	(1)	
Chemicals and Allied Products	149	
Metals, Primary & Fabricated	41	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	124	
Electric & Electronic Equipment	([1])	
Transportation Equipment	22	
Other Manufacturing	156	
Wholesale Trade		76
Banking		0
Finance/Insurance/Real Estate		([1])
Services		6
Other Industries		32
TOTAL ALL INDUSTRIES		925

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

EAST ASIA AND THE PACIFIC

AUSTRALIA

Key Economic Indicators

[Billions of U.S. dollars unless otherwise noted [1])

	1992	1993	1994 [2]
Income, Production and Employment:			
Real GDP (1989–90 prices) [3]	276.7	262.4	293.8
Real GDP Growth (pct.)	1.8	3.2	4.3
GDP (at current prices)	292.1	281.5	317.6
By Sector:			
Agriculture	11.7	10.9	12.2
Energy/Water	9.2	8.7	9.4
Manufacturing	41.2	40.3	46.1
Construction	18.2	17.8	19.6
Ownership of Dwellings	27.5	26.1	28.8
Finance/Property/Business Svcs.	33.0	30.4	32.6
Other Services [4]	45.4	43.4	49.1
General Government and Defense	10.8	10.0	10.9
Net Exports of Goods & Services	−0.5	−1.3	−1.3
Real Per Capita GDP (USD)	15.8	15.0	16.6
Labor Force (000s)	8,623	8,648	8,760
Unemployment Rate (pct.)	10.8	10.9	9.8
Money and Prices (annual percentage growth):			
Money Supply (M1) (pct./year-end)	20.0	17.8	19.3
Base Interest Rate [5]	7.2	5.8	6.0
Personal Savings Ratio (pct.)	4.9	5.0	5.4
Retail Price Index (pct. change)	2.1	2.8	2.9
Consumer Price Index (pct. change)	1.0	1.8	2.4
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (A$1=U.S. cents)	74.0	68.0	73.0
Percentage Growth	−5.0	−8.1	7.4
Balance of Payments and Trade:			
Total Exports (FOB) [6]	43.2	42.7	50.4
Exports to U.S.	3.8	3.4	4.0
Total Imports (FOB)	41.1	42.4	51.1
Imports from U.S.	9.2	9.0	10.2
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
Gross External Public Debt	63.2	64.9	67.9
Debt Service Payments (paid)	9.2	7.5	7.9
Gold and Foreign Exch. Reserves	14.9	14.3	15.0
Current Account Balance	−10.7	−10.7	−12.0
Trade Balance with U.S.	−5.3	−5.5	−6.2

N/A—Not available.
[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes are calculated in Australian dollars.
[2] 1994 figures are all estimates based on available monthly and quarterly data in October 1994.
[3] GDP at factor cost for base year indicated.

[4] "Other Services" includes community, recreation, personal and other services.
[5] Figures are actual, average annual interest rates, not changes in them.
[6] Trade data recorded on a foreign trade basis–different to those recorded on a balance of payments basis.

1. General Policy Framework

Australia's gross domestic product (GDP) in 1994 was estimated to be US $317.6 billion. Real GDP is estimated to have grown by 4.3 percent, a substantial improvement from 1993's 3.2 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 between 9.5 and 10 percent during 1994.

U.S. economic interests in Australia are substantial, including direct investment worth approximately US $16 billion and a bilateral trade surplus of approximately US $6 billion (up by approximately US $600 million from 1993).

Although in area 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 a leading exporter of coal, minerals and metals, particularly iron ore, gold, alumina, and aluminum. Export earnings are not well diversified; in 1993, primary products accounted for 60 percent of the total value of goods and services exports.

The drought which Australia suffered in 1994 affected the agricultural sector severely. The wheat crop, for example, was cut by an estimated 51 percent from the previous year, reducing export earnings and necessitating the importation of wheat, corn, and sorghum. Some commentators believe that the drought may reduce otherwise-attainable real GDP growth (as shown in the data table above) by approximately 0.5 percent.

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 (airlines, banks, telecommunications) and state level (water treatment, transportation, electricity, banks) is being pursued. The government intends to sell the remaining 75 percent of Qantas to the public in 1995. 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.

The Australian Government continued to provide substantial fiscal stimulus to the domestic economy in 1994. The budget deficit reached US $9.6 billion (3.4 percent of GDP). Public sector borrowing more than funded the deficit, and took the form of treasury notes (US $427 million), treasury bonds (US $10.1 billion), and cash drawdowns (US $4.9 billion). As part of its Australian Fiscal Year (AFY) 1994–95 budget, the government announced its intention to cut the deficit to 1 percent of GDP by AFY 1996–97.

The money supply is 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. The government also uses interest rate changes to influence the money supply. In 1994, official government interest rates were increased twice, by 75 basis points in August, and a full percentage point in October, to reach 6.5 percent.

A strong supporter of the Uruguay Round negotiations liberalizing international trade, the Australian government moved rapidly to ratify the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995. Australia also advocates liberalizing trade within the Asia-Pacific region; it is a leading member of the Asia Pacific Economic Cooperation (APEC) forum, and strongly supported the November 1994 Bogor Declaration, in which APEC leaders set the goal of free trade in the region by the year 2020.

The challenge the government will face in 1995 is to maintain moderately high real growth and reduce unemployment without causing a revival of inflation and a massive increase in the current account deficit (by virtue of the impact growth has

on the demand for imports). Many economists believe that the desired gains in growth and employment will come, but are worried that unless the government cuts the budget deficit faster than currently planned, both of the feared side effects could be produced by an overheating economy.

2. Exchange Rate Policies

Australian Dollar (A$) 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 has a comfort range in mind when looking at exchange rate movements. It is active in "smoothing and testing" foreign exchange rates in order to provide a generally stable environment for fundamental economic adjustment policies, and intervenes occasionally to combat speculative attacks on the Australian dollar.

Australia does not have major foreign exchange controls beyond requiring Reserve Bank approval if more than A$5,000 (US $3,650) in cash is to be taken out of Australia at one time, or A$50,000 (US $36,500) in any form in one year. The purpose is to control tax evasion and money laundering. If the Reserve Bank is satisfied that there are no liens against the money, authorization to take large sums out of the country is automatic. The regulation does not affect U.S. trade.

3. Structural Policies

Pursuing a goal of a globally competitive economy, the Australian government is continuing a program of economic reform begun in the 1980s that includes an accelerated timetable for the reduction of protection and micro-economic reform. Initially broad in scope, the Australian government's program is now focusing on industry-by-industry, micro-economic 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 must learn to do without high levels of protection.

Towards these 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 and motor vehicles, all tariffs will be reduced to 5 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. The Uruguay Round agreements will force faster-than-planned tariff reductions in only a small number of cases.

As noted in Section five (below), local content requirements on television advertising and programming and certain government procurement practices may have adverse effects on U.S. exporters and service industries.

4. Debt Management Policies

Australia's gross external public debt now exceeds US $67.7 billion, or 23.5 percent of GDP. That figure represents 46 percent of Australia's gross external debt; the remaining 54 percent is owed by the private sector. Gross interest payments on public debt totaled US $4.0 billion in AFY 1993/94, representing 6.7 percent of exports of goods and services. Private sector debt service totaled US $4.0 billion, an amount equal to another 6.7 percent of export earnings. On an overall basis, therefore, Australia's debt service ratio was 13.4 percent, down substantially from AFY 1992/93's 14.9 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 1994.

5. Significant Barriers to U.S. Exports

The U.S. enjoyed an estimated US $6.2 billion trade surplus with Australia in 1994. There are no longer any significant Australian barriers to U.S. exports. The U.S. is the number one source of imports in Australia, with a 21 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.

Licensing: Import licenses are now required only 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 in Australia. In 1992 the Government announced a complete liberalization of the banking sector and new foreign banks will be licensed to operate as either branches (for wholesale banking)

or subsidiaries (for retail operations). The Australian Broadcasting Authority (ABA), which controls broadcast licensing, liberalized rules governing local content in television advertising effective January 1, 1992. Under current rules, up to 20 percent of the time used for paid advertisements can be filled with messages produced by non-Australians. Statistics covering 1992 (the latest available) indicate that approximately 8 percent of television advertisements broadcast in that year were produced abroad.

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 5 percent per year until January 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. programming sold to Australian broadcasters, as 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 46 percent of commercial stations' broadcasting time was devoted to imported programming. During the 1992 broadcasting year, that figure fell to 44 percent. Regulations governing the development of Australia's pay-TV system require that channels carrying drama programs devote at least 10 percent of broadcast time to new, locally produced programs. The ABA's local content requirements have been opposed actively by the American Embassy and U.S. trade officials. In September 1994 the Embassy reiterated U.S. opposition to quotas in the context of the ABA's review of broadcasting content regulation. That review is expected to conclude in early 1995.

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

Standards: In 1992, Australia became a signatory to the GATT Standards Code. However, it still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards with the objective of fulfilling all obligations of the GATT Standards Code. State governments agreed in March 1991 to recognize each others' standards. As a result, state standards are being reviewed to harmonize with federal standards.

Labeling: Federal law requires that country of origin be clearly indicated on the front label of some products sold in Australia. Labels must also give the name and address of a person in Australia responsible for the information provided on the label. State rules requiring that mass or volume of packaging contents be expressed on labels to the nearest five milliliters or 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 30 percent, will drop to 27.5 percent on January 1, 1995 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 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 (US $14,600) 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 reforms to open the economy even further to foreign investment. In the mining sector (excluding uranium), the 50 percent Australian equity and con-

trol guideline for participation in new mining projects, and the economic benefits test for acquisitions of existing mining businesses, were 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) wereincreased. Proposals to acquire 15 percent or more of a company or business with total assets below A$50 million (US $36.5 million), or takeover an off-shore company with Australian subsidiaries or assets valued below A$50 million (US $36.5 million) are no longer examined. Proposals above the threshold will be approved unless found contrary to the national interest. The only sectors in which the reforms 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. However, in June 1994 the government announced an interagency examination of the code and the question of possible adherence. The review is scheduled to be completed in early 1995.

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 United States and Australia.

Since 1991, foreign information technology companies with annual sales to the Australian government of A$10–40 million (US $7.3–29.2 million) have been required to enter into fixed term arrangements (FTAs), and those with sales greater than A$40 million (US $29.2 million) into partnerships for development (PFDs). Under FTAs, 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 5 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, small business systems, and first telephones have Industrial Development Arrangements (IDAS) 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 (US $0.7 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 U.S. 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 (GBEs–central government-owned companies such as the Australian and Overseas Telecommunication 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 GBEs and the need to obtain value for money." The new policy stops well short of directing GBEs 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.

The Australian government's May 1994 employment and industry policy statement strengthens these efforts to use government procurement policy to encourage local industrial development. It requires industry impact statements to be drafted for procurement of US $7.4 million or more, and establishes a two-envelope system for such tenders. Under the latter system, bidders will be required to submit de-

tailed information regarding Australian industrial development separately (in "envelope 2"), and bids will be judged both on price/product specifications and industrial development grounds.

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. Studies are underway which could see the lifting of phytosanitary barriers to the importation of U.S. salmon and cooked chicken.

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 October 1, 1995. Since October 12, 1989 the government has banned the sale of smokeless tobaccos (chewing tobacco, snuff for oral use) in Australia, leaving the market solely to local products used for oral purposes, but not labeled as such.

Fruit Drinks: Noncarbonated fruit drinks containing 20 percent or more local fruit juice are assessed a sales tax of 10 percent, whereas fruit drinks with below 20 percent local fruit juice content are assessed a 20 percent sales tax. This Australian content-based tax rule was due to be rescinded on or before January 1, 1995. In 1993, Australia modified its preferential tariff scheme to equalize, from July 1, 1995, the tariff applied on citrus from developed and developing countries. The tariff will be set at 8 percent effective on that date, and will fall to 5 percent on July 1, 1996.

6. Export Subsidies Policies

Australia 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 (US $182,500) 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 and textiles (June 30, 1995); citric acid (March 31, 1996); machine tools and robots (June 30, 1997); books, computers and circuit boards (December 31, 1997). All bounties will be reviewed before expiration with some possibly extended or converted to tariffs. Dairy market support payments, which were classed as an export subsidy under the Uruguay Round, are to be terminated on June 30, 1995 in accordance with Australia's Uruguay Round implementing legislation.

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

7. Protection of U.S. Intellectual Property

Patents, trademarks, designs and integrated circuit copyrights are protected by Australian law. Australia is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Geneva Phonograms Convention, 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 production). They are protected by the Patents Act, which offers coverage for 16 years, subject to renewal. However, patents for pharmaceutical substances may have the term of protection extended to 20 years. Trade secrets are protected by common law, such as by contract. Designs can be initially protected by registration under the Designs Act for one year, which may be extended for six years and for further periods of five and five years respectively, upon application.

Trademarks: Trade names and marks may be protected for seven years and renewed at will by registration under the Trademark Act. Once used, trade names and marks may also, without registration, be protected by common law. Some protection also extends to parallel importing; that is, imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia.Parallel importation is allowed, however, 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 Copyright Act. Works do not require registration and copyright automatically subsists in original literary, artistic, musical and dramatic works, film and sound recordings. Computer programs are legally considered to be literary works. Copyright protection is for the life of the author plus 50 years.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, and against video piracy and unauthorized third-country imports. Australia's Uruguay Round implementing legislation extends protection against the commercial rental of sound recordings and computer programs. 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. *Right of Association.*—Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively; these rights are enshrined in the Arbitration Act of 1904. Legislation which went into effect on March 30, 1994 formally legalized the right to strike, which already had been 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 conventions regarding worker rights.

b. *Right to Organize and Bargain Collectively.*—Slightly less than 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 in every state that children attend school until age 15 maintains an effective floor on the age at which children may be employed full time.

e. *Acceptable Conditions of Work.*—There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,579
Total Manufacturing		7,076
Food & Kindred Products	1,319	
Chemicals and Allied Products	2,235	
Metals, Primary & Fabricated	317	
Machinery, except Electrical	624	
Electric & Electronic Equipment	405	
Transportation Equipment	472	
Other Manufacturing	1,704	
Wholesale Trade		1,706
Banking		1,199
Finance/Insurance/Real Estate		2,060
Services		734
Other Industries		3,083
TOTAL ALL INDUSTRIES		18,437

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

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (RMB bn/1980 base) [2]	1,272	1,440	1,606
Real GDP Growth (pct.)	9.5	13.4	11.5
GDP (at current prices)	315.4	309.5	417.6
GDP by Sector:			
Agriculture	85.2	N/A	N/A
Energy/Water	N/A	N/A	N/A
Manufacturing	140.9	N/A	N/A
Construction	21.7	N/A	N/A
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	117.9	N/A	N/A
Government/Health/Education	N/A	N/A	N/A
Net Exports of Goods & Services	6.3	N/A	N/A
Real Per Capita GDP (RMB) [2]	1,828	2,013	2,214
Labor Force (millions)	568	571	575
Official Unemployment (pct.)	2.5	2.3	2.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	31.3	25.0	35.0
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate [3]	40.0	40.0	40.0
Retail Inflation	5.4	14.0	21.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	8.6	16.0	23.0

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Exchange Rate (RMB/USD;year-end)			
Official[4]	5.8	5.8	N/A
Parallel[4]	6.8	8.8	8.5
Balance of Payments and Trade:			
Total Exports (FOB)[5]	84.9	91.8	118.0
Exports to U.S. (CV)[5]	25.7	31.5	38.5
Total Imports (CIF)[5]	80.6	104.0	117.0
Imports from U.S. (FAS)[5]	7.5	8.8	10.3
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	61.0	66.0	80.0
Debt Service Payments (paid)	8.8	9.3	10.5
Gold and Foreign Exch. Reserves	20.7	21.2	40.0
Trade (Merchandise) Balance[5]	4.4	−12.2	1.0
Trade Balance with U.S.[5]	18.2	22.8	28.2

N/A—Not available.

[1] 1994 figures are all estimates based on monthly data available in October 1994. Sources: State Statistical Bureau Yearbook, PRC General Administration of Customs Statistics, International Monetary Fund and World Bank reports, U.S. Department of Commerce trade data and U.S. Embassy estimates.

[2] Real GDP and real per capita GDP are given in renminbi (RMB) using 1980 prices. All other income and production figures are converted into dollars at the parallel rate.

[3] Personal Saving Rate is as estimated by the IMF in May 1992.

[4] Prior to 1994 China maintained a dual exchange rate system with an official rate and a parallel "swap market" rate. In January 1994 these two rates were unified.

[5] Source: U.S. Department of Commerce (U.S.-China bilateral trade data); PRC Customs (Chinese global trade data).

1. General Policy Framework

Since the beginning of economic reforms in 1979, the Chinese economy has grown at an average rate of nine percent per year, and in 1992 and 1993 growth accelerated to over 13 percent per year. This striking evidence of the dynamism of the Chinese economy has transformed foreign views of the potential of the Chinese economy and encouraged large inflows of foreign direct investment over the past three years. With appropriate economic reforms, China should be able to sustain high growth rates into the next century. But the next phase of reform will require China to tackle problems such as enterprise reform that were largely bypassed in the first phase of reform, and to build new legal and political structures more appropriate to a market economy.

During the first nine months of 1994, real GDP growth reached 11.4 percent, down only slightly from the torrid pace set last year. But despite the introduction of stabilization measures in mid-1993, rapid growth in 1994 has been accompanied by a steady increase in inflation. The national cost of living index was up 24 percent in 1994, as inflation reached its highest level since 1988–89. Chinese authorities blame most of the 1994 inflation on price reform and developments in the agricultural sector. But the more fundamental cause appears to be the accommodating monetary and fiscal policies that China has maintained, except for a few brief interludes, since the current boom began in 1991–92.

China's economic reform program in 1994 has been guided by the landmark "decision" approved at the Third Plenum of the Chinese Communist Party, held in November 1993. This "decision" established a broad framework for China's transition to a "socialist market economy," including ambitious plans for fiscal, financial, and enterprise reforms to be implemented by the end of the decade. In keeping with the spirit of the Third Plenum "decision," the Chinese government introduced major reforms of China's foreign exchange and taxation systems at the beginning of 1994, and it announced plans for a series of important economic laws, including commercial and central banking laws, a foreign trade law, and a securities law. Some of these reforms have been taken with an eye to China's standing application to join the World Trade Organization (WTO) which remains under consideration by WTO members.

During 1994, however, concern over inflation and domestic stability have slowed the pace of some reforms while others have met with mixed success. The unification of China's foreign exchange rates has gone relatively smoothly, with the renminbi actually appreciating slightly against the U.S. dollar since January 1994. Tax re-

form has led to a more simplified code and has reduced the gap in tax rates for state-owned and other enterprises. The new structure of tax-sharing between central and provincial governments also marks a significant improvement over the old tax-contracting system. But the new tax system has yet to increase real government revenues or the share of government revenues in GDP, two of its key objectives. During 1994 many foreign corporations in China expressed concerns about possibly discriminatory application of taxes to their operations there.

Concern over the social costs of cutting subsidies to state enterprises has slowed enterprise reform, and little progress has been made in reforming China's backward financial system. The Draft Securities Law and the Central and Commercial Banking Laws now appear unlikely to be passed by the National People's Congress before the first quarter of 1995, and despite the establishment of three new state development banks, China's large state banks remain only in the preliminary stages of their transformation into true commercial banks.

Chinese authorities have announced that enterprise reform will be the centerpiece of their reform efforts in 1995. Some loss-making state enterprises will reportedly be forced into bankruptcy, and there has been continued discussion of possible measures to establish a new social insurance system that could buffer the costs of restructuring the state sector. But the success of reform in 1995 will depend heavily on China's ability to limit high inflation and by continued concern about the possible impact of rising urban unemployment on social stability.

While the government hopes to reduce inflation to 15 percent or less in 1995, it has avoided implementing tough austerity measures of the type that have been effective in the past but that might slow economic growth and increase urban unemployment. Unfortunately, the government's tentative stabilization program has proven ineffective, and there is a significant risk of inflation worsening still further unless the government takes more decisive steps to cut lending to the state sector and control China's rapidly increasing money supply.

2. Exchange Rate Policies

China unified its dual exchange rate system on January 1, 1994 and began phasing-out the use of Foreign Exchange Certificates, a convertible form of the renminbi (RMB) formerly reserved for use by foreigners within China. Chinese authorities describe the current exchange rate as a "managed floating rate." During each day's trading the exchange rate is permitted to fluctuate in a narrow band around a central rate announced by the People's Bank of China. Since January 1994, the RMB/USD exchange rate has appreciated slightly from about 8.7 to 8.5.

Under new foreign exchange guidelines, the RMB is conditionally convertible for certain trade and current account transactions. Most Chinese enterprises are now required to sell their foreign exchange earnings to Chinese banks at the new unified rate. A Chinese importer with a valid import contract and any required import licenses or quota permits can, in principle, purchase foreign exchange through a designated foreign exchange bank at the unified rate, without receiving prior approval from the State Administration for Exchange Control (SAEC).

The Chinese authorities have maintained separate foreign exchange rules for foreign-invested enterprises (FIEs), which can maintain foreign currency deposits and keep their foreign exchange earnings. FIEs are formally excluded from the "interbank" foreign exchange market and required to buy and sell foreign exchange from each other in a modified version of the old swap center. In practice, however, most FIEs now buy and sell foreign exchange using designated foreign-exchange banks, including branches of foreign banks, as their agents. These transactions are completed over the same trading system used by Chinese banks for their domestic customers.

While FIEs have generally enjoyed improved access to foreign exchange this year, the current system has several serious shortcomings. FIEs still need to obtain SAEC approval before they can purchase foreign exchange, and they remain subject to foreign exchange balancing requirements. While the SAEC did not enforce these requirements strictly in 1994, they could be used to control FIE purchases of foreign exchange for imports or the repatriation of profits if conditions in the foreign exchange market should change.

3. Structural Policies

China's structural policies remain caught between plan and market. The "decision" of the Party's Third Plenum in the fall of 1993 detailed plans to establish by the end of the decade the foundation for a "socialist market economy," in which free market principles would guide nearly all economic activity but public or socialist ownership would still predominate. The government claims that prices have been freed for about 95 percent of consumer goods and 85 percent of industrial inputs.

Nevertheless, as part of the fight against inflation, the government has over the past year intervened extensively in pricing for daily necessities, basic urban services, and key commodities, including petroleum imports.

In addition, under the guise of "macroeconomic management," the government has begun to formulate sectoral industrial policies that will affect U.S. investment in, and exports to, China. The Automotive Industrial Policy, issued in July 1994, contains a number of measures to protect infant industry, including import controls, local content and other performance requirements for foreign investors, and temporary price controls for sedans. In the "Framework Industrial Policy for the 1990s," the government announced plans to issue industrial policies for the following other sectors: telecommunications and transportation, machinery and electronics, construction, foreign trade, investment and, possibly, textiles.

4. Debt Management Policies

China's current external debt burden remains within acceptable limits. At the end of 1993, China's external debt stood at about $80 billion, or 87.2 percent of exports, according to official Chinese estimates. China's 1993 debt service to export ratio was about 12–13 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 September 1994, China's official foreign exchange reserves were $39.8 billion, up $18.6 billion from the beginning of the year; foreign exchange reserves continued to climb later in the year with the People's Bank of China alone holding $48.9 billion in November 1994.

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 in many sectors, China relies on multiple, overlapping nontariff barriers, administered at the national and provincial levels by various bureaus or ministries, to limit imports. These barriers include absence of transparency in the trade regime; import licensing requirements; import quotas, restrictions and controls; standards and certification requirements; and scientifically unjustified sanitary and phytosanitary (SPS) measures. Strict controls over Chinese enterprises' trading rights are also a major market access barrier.

On October 10, 1992, the United States and China signed a Memorandum of Understanding (MOU) on Market Access that commits China to dismantle most of these barriers and gradually open its markets to U.S. exports. The actions China has committed to take are among those being considered by members of the GATT/World Trade Organization (WTO) in examining China's pending application for membership. Until the signing of the MOU, many of China's trade laws and regulations were considered "internal" documents not available to foreigners. As agreed in the MOU, China has taken certain steps to make its trade regime more transparent, including: 1) publishing trade laws and regulations in a newly established central register and making available some information of commercial interest to U.S. companies; 2) publishing 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 3) identifying agencies involved in the import approval process. To date, however, China has not fulfilled its MOU commitment to publish import quotas or to deal with SPS restrictions.

High and unpredictable tariffs make importing into the Chinese market difficult. Tariffs on discouraged imports, such as automobiles, can run in excess of 100 percent. In addition, tariffs may vary for the same product, depending on whether the product is eligible for an exemption from the published tariff. Under commitments made in the market access MOU, the Chinese government lowered tariffs on 3,371 items in December 1992 and on an additional 2,898 items in December 1993. Among imports with lowered tariffs are edible fruits and nuts, vegetable oils, photographic/cinematographic goods, games, miscellaneous chemical products, iron/steel articles, machinery/mechanical appliances, electrical machinery and parts, and perfumery, cosmetic and toiletry preparations.

China currently retains nontariff measures (quotas, licenses or tenders) for 784 tariff line items. Under commitments made in the market access MOU to progressively phase out import barriers, China eliminated such measures for 283 items on December 31, 1993, and an additional 208 items on June 1, 1994, including a number ahead of, or in addition to, the schedule set in the MOU. Time frames for liberalization vary from product to product. Under the market access MOU liberalization time table, China agreed to eliminate approximately 75 percent of all import licensing requirements, quotas, controls and restrictions by the end of 1994, and 90 percent will be removed by the end of 1997. Export sectors affected by the MOU which

are of interest to U.S. firms include: autos and parts, medical equipment, computers, photocopiers, telecommunications, electrical appliances, chemicals, agrichemicals, pharmaceuticals, film and instant print film, instant cameras, beer, wine, alcoholic beverages, mineral waters, wood products, steel, and a wide range of machinery products.

Despite its commitments in the market access agreement, China has not stopped using unscientifically-based standards and certification as barriers to trade. China's phytosanitary and sanitary measures for imports of plants and animals are often overly strict, unevenly applied and not backed by modern scientific practices. In the market access 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. As of October 1994, U.S. concerns have been partly resolved 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 applying the same standards and testing requirements to nonagricultural products, whether foreign or domestic.

A fundamental philosophy of import substitution stood behind these various policies. In the market access MOU, 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 to imports because an equivalent product is produced in China. Import substitution lists have been publicly disavowed. Nonetheless, the Chinese government has continued to place local content requirements on foreign investments in China, most recently in the industrial policy governing the automotive industry.

In the past few years, China undertook a number of reforms to improve its trade regime. The National People's Congress (NPC) 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. China's first comprehensive Foreign Trade Law also went into effect on July 1, 1994. The law aspires to be consistent with requirements of the GATT, but it serves mainly as a framework codifying the existing system or setting goals for future reforms. A key concern is that the Foreign Trade Law does not establish a legal standing for foreign individuals or foreign-owned firms engaged in trade in China. Implementing regulations have in many cases not yet been drafted.

While implementation of the market access MOU will reduce or eliminate many of the most serious barriers to trade in goods, China has only recently begun to reform its services sector. China has permitted "experiments" in foreign investment in service sectors by authorizing a limited number of foreign firms to establish joint ventures in insurance, legal services, tourist resorts and department stores. In general, Chinese restrictions on certain foreign service activities (including construction, banking, accounting, travel services, audio visual services, and data processing services) prevent U.S. firms from enjoying a reciprocal level of participation in China's service sector. U.S. and other foreign banks cannot engage in local currency business in China or deal with Chinese clients, while the Bank of China branch in New York has conducted all forms of branch banking activities since 1980. Numerous non-transparent approval procedures hamper foreign banks' dealings with other foreign-invested enterprises. Except for 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. Foreign firms cannot establish wholesaling operations and can only engage in a very narrow range of retailing: restaurants, "experimental" department stores and retail outlets selling only products made at a foreign investor's own factory in China.

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 quotas, restrictions on foreign exchange availability, and lax enforcement of intellectual property laws. China does not permit foreign investment services firms to establish profit-making operations or gain membership on its stock exchanges. Foreigners are limited to holding "B" shares, a small volume of outstanding equities. Representative offices of foreign companies must hire their local employees through a labor services company.

There are also significant barriers to investment which warrant further reform. FIE's continue to be treated differently for tax purposes. Foreign firms established prior to January 1, 1994, pay a 17 percent value-added tax on domestic materials in exports from which Chinese firms are exempt. 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. Chinese regulations and policies place strong pressure on most foreign investors to export and to localize production through greater use of Chinese components rather than imports. 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 but not in others, although solely-owned foreign ventures are still rare. In at least one recent case, a U.S. company has tried unsuccessfully to file an international arbitration award with a Chinese court, despite the court's obligation to accept the case under China's law and international treaty obligations.

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

Customs procedures are not applied uniformly throughout China. Importers frequently report being charged different rates for the same product. Some products, including foods and chemicals, are subject to different inspection or registration procedures than domestic products (violations of the GATT principle of national treatment).

6. Export Subsidies Policies

China abolished direct subsidies for exports on January 1, 1991. Nonetheless, many of China's manufactured exports receive indirect subsidies through guaranteed provision of energy, raw materials or labor supplies. Other indirect subsidies are also available such as bank loans that need not be repaid or enjoy lengthy or preferential terms. Import/export companies also cross-subsidize unprofitable exports with earnings from more lucrative products. Tax rebates are available for exporters, as are duty exemptions on imported inputs for export production. Although China does not currently provide extensive agricultural subsidies, it has sought in GATT/WTO accession negotiations to retain the right to offer very large subsidies should it see fit in the future.

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, but enforcement of these measures has been extremely poor. 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 joined the World Intellectual Property Organization and has acceded to a number of intellectual property conventions, including the Paris Convention on the Protection of Industrial Property, the Berne Copyright Convention, and the Madrid Agreement Concerning the International Registration of Trademarks. Although not now a member of the GATT/WORLD TRADE ORGANIZATION (WTO), China has publicly declared its support of the Uruguay Round text on trade-related aspects of intellectual property protection (TRIPS).

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 met most of its commitments under the MOU, which included amending its patent law, joining the Berne Convention, and enacting trade secrets legislation. Enforcement of laws, however, remained lax. Consequently, China was again named as a "priority foreign country" and a Special 301 investigation was initiated in June 1994 seeking improved enforcement of intellectual property laws and better market access for U.S. products.

In 1994 China has taken some additional steps to strengthen its enforcement regime. The government recently passed legislation adding criminal penalties for copyright infringement. It empowered the Customs Administration to provide border en-

forcement for intellectual property and the Copyright Office to enforce software copyrights. The State Council established an intellectual property enforcement office whose mandate includes coordinating enforcement efforts countrywide. However, these recent steps have yet to alter the environment of rampant infringement of products relying on intellectual property. Factories producing massive quantities of pirated sound and video recordings, long identified to China as IPR infringers, continued to produce IPR infringing works at the end of 1994. Lack of market access for licit audiovisual products also remains an impediment to effective enforcement. Recent regulations outlining agency responsibilities in this area have not clarified access procedures for foreign exporters and manufacturers.

Among the most serious issues facing U.S. right holders is the pervasiveness of copyright infringement. For instance, U.S. industry associations estimate that pirating of U.S. copyrighted works cost U.S. rights holders nearly $1 billion in China in 1994. Competing bureaucratic interests and the lack of a reliable legal system for resolving commercial disputes have hampered the establishment of effective enforcement mechanisms. 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.

The 1992 intellectual property rights MOU committed China to make 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 amendment 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 additionally provided for administrative protection of certain U.S. pharmaceutical and agricultural chemicals as of January 1, 1993. China agreed to provide the 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. The Ministry of Chemical Industries is administering the regime, and the U.S. government is currently monitoring the Ministry's procedures.

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.

8. Worker Rights

a. *The Right of Association.*—China's 1982 Constitution provides for "freedom of association," but this right is subject to the interest of the State and the leadership of the Chinese Communist Party. The country's sole officially-recognized workers' organization, the All-China Federation of Trade Unions (ACFTU), is controlled by the Communist Party. Independent trade unions are illegal. The 1993 revised Trade Union Law required that the establishment cf unions at any level be submitted to a higher level trade union organization for approval. The ACFTU, the highest level organization, has not approved the establishment of independent unions. Workers in companies with foreign investors are guaranteed the right to form unions, which then must affiliate with the ACFTU. Fourteen coastal provinces have passed regulations requiring all foreign-invested enterprises to establish unions before the end of 1994.

b. *The Right to Organize and Bargain Collectively.*—The long-awaited National Labor Law, passed by the Chinese National People's Congress Standing Committee on July 5, 1994, permits workers in all types of enterprises in China to bargain collectively. The law, which will take effect January 1, 1995, supersedes a 1988 law that allowed collective bargaining only by workers in private enterprises. Some high profile experiments in collective bargaining have been carried out at state enterprises. In the past, the ACFTU has limited its role to consulting with management over wages and regulations affecting working conditions and serving as a conduit for communicating workers' complaints to management or municipal labor bureaus. Worker congresses have mandated authority to review plans for wage reform, though these bodies serve primarily as rubber stamp organizations.

c. *Forced or Compulsory Labor.*—In addition to prisons and reform through labor facilities, which contain inmates sentenced through judicial procedures, China also maintains a network of "reeducation through labor" camps where inmates are sentenced through non-judicial procedures. Inmates of reeducation through labor facilities are generally required to work. Reports from international human rights organizations and foreign press indicate that at least some persons in pretrial detention are also required to work. Justice officials have stated that in reeducation through labor facilities there is a much heavier emphasis on education than on labor. Most

reports conclude that work conditions in the penal system's light manufacturing factories are similar to those in ordinary factories, but conditions on farms and in mines can be harsh.

d. *Minimum Age of Employment of Children.*—China's new National Labor Law forbids employers to hire workers under 16 years of age and specifies administrative review, fines and revocation of business licenses of those businesses that hire minors. In the interim, regulations promulgated in 1987 prohibiting the employment of school-age minors who have not completed the compulsory nine years of education continued in force. In poorer isolated areas, child labor in agriculture is widespread. Most independent observers agree with Chinese officials that, given its vast surplus of adult labor, China's urban child labor problem is relatively minor. No specific Chinese industry is identifiable as a significant violator of child labor regulations.

e. *Acceptable Conditions of Work.*—The Labor Law adopted in July codified many of the general principles of China's labor reform, setting out provisions on employment, labor contracts, working hours, wages, skill development and training, social insurance, dispute resolution, legal responsibility, supervision and inspection. In anticipation of the law's minimum wage requirements, many local governments already enforce regulations on minimum wages. Unemployment insurance schemes now cover a majority of urban workers (primarily state sector workers). In February 1994, the State Council reduced the national standard work week from 48 hours to 44 hours, excluding overtime, with a mandatory 24-hour rest period. A system of alternating weeks of six and five-day work weeks began in March 1994, with a six-month grace period for implementation. The same regulations specified that cumulative monthly overtime could not exceed 48 hours.

Every work unit must designate a health and safety officer. Moreover, while the right to strike is not provided for in the 1982 Constitution, the Trade Union Law explicitly recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and to participate in accident investigations. Labor officials reported that such withdrawals did occur in some instances during 1994. Nonetheless, pressures for increased output, lack of financial resources to maintain equipment, lack of concern by management, and a traditionally poor understanding of safety issues by workers have contributed to a continuing high rate of accidents. Partial year statistics provided by the ACFTU indicate that 11,600 workers were killed in industrial accidents from January to August of 1993, up 12.9 percent over the same period of 1992.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		223
Total Manufacturing		461
Food & Kindred Products	66	
Chemicals and Allied Products	67	
Metals, Primary & Fabricated	[1]	
Machinery, except Electrical	16	
Electric & Electronic Equipment	[1]	
Transportation Equipment	[1]	
Other Manufacturing	53	
Wholesale Trade		144
Banking		[1]
Finance/Insurance/Real Estate		−2
Services		[1]
Other Industries		[1]
TOTAL ALL INDUSTRIES		877

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

HONG KONG

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1990 prices)	83,805	88,807	93,991
Real GDP Growth (pct.)	6.0	5.9	5.7
GDP (at current prices)	100,622	14,738	131,086
GDP by Sector: (pct.)			
Agriculture	0.2	N/A	N/A
Energy/Water	2.2	N/A	N/A
Manufacturing	13.7	N/A	N/A
Construction	5.1	N/A	N/A
Rents	3.2	N/A	N/A
Finance[2]	24.5	N/A	N/A
Other Services[3]	35.9	N/A	N/A
Government/Health/Education	15.2	N/A	N/A
Net Exports of Goods & Services (at current prices)	5,840	9,152	5,050
Real Per Capita GDP (1990 prices)	14,419	15,004	15,619
Labor Force (000s)	2,820	2,929	2,977
Unemployment Rate (pct.)	2.0	2.0	2.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	10.8	16.0	11.8
Base Interest Rate (pct.).			
Prime Rate	6.5	6.5	8.5
Personal Savings Rate (pct.)	1.5	1.5	3.75
Retail Inflation[4]	N/A	N/A	N/A
Wholesale Inflation[4]	N/A	N/A	N/A
Consumer Price Index[5]	125.2	135.9	151.1
Official Exchange Rate (HKD/USD)	7.741	7.736	7.726
Balance of Payments and Trade:			
Total Exports (FOB)	119,487	135,244	150,857
Exports to U.S. (FOB)	27,259	31,107	35,196
Total Imports (CIF)	123,816	139,052	159,909
Imports from U.S. (CIF)	9,119	10,266	11,300
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Annual Debt Service	0	0	0
Annual Debt Service[6]	35,250	43,003	N/A
Trade Balance	−4,329	−3,808	−9,052
Trade Balance with U.S.	18,410	20,841	23,896

N/A—Not available.

[1] 1994 projections are by the Consulate and are based on first three quarters statistics. 1994 exchange rates were based on HKD 7.726 to US $1.00; 1992 and 1993 exchange rates as listed.

[2] Includes financing, insurance, real estate and business services.

[3] Includes wholesale, retail, import/export trades, restaurants, hotels, transport, storage and communications.

[4] Hong Kong government provides only the consumer price index (CPI).

[5] Oct 1989–Sept 1990 equals 100; CPI(A) covers urban households with monthly expenditure of US $325–1300 (approximately 50 percent of households).

[6] Foreign currency assets of exchange fund (US dollars). Statistical Note: the Census and Statistics Department has recently completed a non-routine revision of GDP, to base real GDP at 1990 prices and to include certain offshore service activities.

1. General Policy Framework

The Hong Kong government pursues economic policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, and competition subject to transparent laws (albeit without anti-trust legislation) 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 capital or investment, except for some limitations in the media sector, nor are there export performance or local content requirements. Profits may be freely repatriated. There are some barriers to entry in certain service sectors, in particular medicine, law, and aviation. Hong Kong reverts to People's Republic of China (PRC) sovereignty in 1997, but China has committed to leaving Hong Kong's economic system intact for 50 years.

Hong Kong's free market, generally non-interventionist policies have spurred high rates of real growth, low unemployment, rising wages, and one of the highest per-capita GDP levels in the world. The growing economy has produced additional tax revenues despite modest increases in excise, real estate and business profits taxes. The corporate profits tax is 16.5 percent, and personal income is taxed at a maximum rate of 15 percent. Property is taxed; interest, royalties, dividends, capital gains and sales are not. In spite of the growth of government spending from approximately 14 percent of GDP in the mid 1980s to about 19 percent by the early 1990s, the Hong Kong Government annually runs budget surpluses and has amassed large fiscal reserves.

Asset price inflation, a dominant feature of Hong Kong's economy during 1993, has shown signs of moderating during the second half of 1994 as interest rates have increased. Skyrocketing property prices have fallen some 10–15 percent since June 1994, when the government introduced a package of measures designed to curb property speculation, release more land for building, and accelerate major housing projects. Hong Kong's Hang Seng index of blue chip stocks, which increased by 116 percent in 1993, was down by 1.7 percent year-on-year as of November 15, 1994.

Hong Kong is a duty-free port. It levies consumption taxes on certain goods, including tobacco, alcoholic beverages, methyl alcohol and some fuels, but otherwise goods trade freely. Hong Kong is also an entrepot for Chinese and regional trade. In 1993, Hong Kong reexported US $106 billion worth of goods made elsewhere, more than three times as much as it produced domestically for export (US $29 billion). 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; over 75 percent of Hong Kong's GDP now derives from the service sector, much of it connected in one way or another with China.

The Hong Kong dollar is linked to the U.S. dollar at an exchange rate of HKD 7.8 = US $1.00. The link was established in 1983 to encourage stability and investor confidence in the run-up to Hong Kong's reversion to Chinese sovereignty in 1997. The linked exchange rate requires that Hong Kong interest rates generally track U.S. interest rates. Despite several interest rate increases during 1994, Hong Kong's prevailing 8 percent inflation rate has meant that savers have continued to face negative real interest rates.

On July 1, 1997, Hong Kong will revert to PRC sovereignty. As guaranteed by the 1984 Sino-United Kingdom (UK) "Joint Declaration" and the 1990 PRC "Basic Law"—the latter passed by China's National People's Congress—Hong Kong will become on July 1, 1997, a "Special Administrative Region" (SAR) of the PRC. China will take over responsibility for Hong Kong's foreign affairs and defense. However, under China's "one country, two systems" doctrine, Hong Kong has been guaranteed "a high degree of autonomy" in managing its economic, social, legal, budget and other internal policies for fifty years. Hong Kong will remain a separate customs territory with all of its current border arrangements, and it will retain its independent membership in economic organizations such as the GATT.

Sino-British consultations on transition concerns take place chiefly in the Joint Liaison Group (JLG). The JLG (or other joint bodies) must approve Hong Kong's laws, economic agreements with third countries, and economic decisions that will stretch beyond July 1, 1997. This includes major infrastructure contracts and franchises, such as the new airport and port projects. Cooperation on transition issues in the JLG has been uneven because of China's opposition to Governor Patten's electoral reforms, which were implemented in 1994.

Hong Kong ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995. Hong Kong strongly supports an open multilateral trading system and is a member, in its own right, of a number of other multilateral organizations, including the Asia Pacific Economic Cooperation (APEC) forum and the Asia Development Bank, notwithstanding its status as a colony of the United Kingdom. In other international economic fora, such as the International Telecommunications Union or the International Labor Organization, Hong Kong participates as part of the UK delegation.

2. Exchange Rate Policies

The Hong Kong government remains firmly committed to ensuring currency stability through the linked exchange rate to the U.S. dollar. 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 United States. 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's generally non-interventionist 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 standard obligations associated with health, safety and security. Procurement is conducted on an open basis, although Hong Kong elected this year to remove itself from the GATT Government Procurement Code. While in the past British firms 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.

Hong Kong takes justified pride in the efficiency of its port, the world's largest in container throughput, and the airport, the fourth-largest in terms of passenger traffic. But these facilities are under severe strain given robust economic growth in the region and projections for continued strong growth well into the future. Major new infrastructure, including the replacement Chek Lap Kok (CLK) airport and Container Terminal No. 9 (CT–9) are badly needed to ease congestion and ensure Hong Kong's continued competitiveness as a center for trade.

In November, the UK and China reached agreement on a financing package for CLK that sets the overall level of debt and equity in the Provisional Airport Authority (PAA) and Mass Transit Railway Corporation (MTRC). The two sides must still reach accord on separate financial support agreements before the PAA and MTRC will be able to borrow on international markets. Once these are resolved, and Sino-British agreement is reached on the draft airport corporation bill, the PAA will be able to complete tendering for airport services franchises, such as catering, cargo handling, fuel supply and aircraft maintenance.

4. Debt Management Policies

The Hong Kong government has minuscule public debt. Repeated budget surpluses have meant that Hong Knog has not had to borrow. To promote the development of Hong Kong's debt market, in March 1990the government launched an exchange fund bills program with the issuance of 91-day bills. Maturities have gradually been extended, and, in October 1993, the Hong Kong Monetary Authority issued five-year notes, with maturities that extend beyond Hong Kong's reversion to Chinese sovereignty. Under the Sino-British Agreed Minute on financing the new airport and related railway, total borrowings for these projects cannot exceed US $2.95 billion, and such borrowings "will not need to be guaranteed or repaid by the government." Liability for repayment will rest with the PAA and MTRC.

5. Significant Barriers to U.S. Exports

As noted above, Hong Kong is a duty-free port with no quotas, anti-dumping laws, or other barriers to the import of U.S. goods. Phytosanitary standards are generally compatible with U.S. exports of agricultural products. In fact, according to Commerce Department data, Hong Kong was the 11th largest market for U.S. goods in the world last year, recognizing that a significant portion of those exports are actually reexported to China.

Market domination by several firms: Hong Kong does not have anti-trust laws. Certain sectors of its economy are dominated by monopolies or cartels, some but not all of which are regulated by the government. These companies do not necessarily

discriminate against U.S. products. However, many of them actively campaign against foreign competitors, for example in the aviation sector.

The government's policy is to discourage unfair trade practices—see, for example, the Governor's 1992 and 1994 policy addresses. While there are no agencies with anti-trust powers, the Consumer Council is tasked, inter alia, with reporting on anti-competitive behavior in the market. Its reports can spur government action. For example, the government decided to remove the interest cap for time deposits after reviewing the Council's report on banking, although the government chose not to dismantle the interest rate bank cartel itself.

The Hong Kong government has promised to work more closely with the Consumer Council on its publications of other sector specific study reports on supermarkets (just completed), broadcasting, telecommunications, gas supply and the residential property market. The government has committed to provide funds for the Council to establish a trade practices division with a view to improving competition. And in July 1994, the government ended the prohibition on the Council from investigating several specific entities, including the air cargo handling monopoly, the international basic telecom monopoly, and the hospital authority.

Telecommunications/Basic Voice: Value-added telecom services in Hong Kong are open to competition, as are mobile communications. However, basic public voice services are provided under exclusive franchise. Hong Kong Telecom International (HKTI) has the exclusive license until September 30, 2006, to provide a range of international telephone services. This has constrained at least one U.S. company from offering its full range of services in Hong Kong; however, that company plans to submit an application to Hong Kong regulatory authorities arguing that its services should rightly be considered "value-added", and hence not restricted.

Professional Services: Physician services—UK-trained physicians may practice in Hong Kong with pro forma certification, and some Commonwealth nationals receive expedited certification, but other foreign doctors are forbidden from practicing without going through a lengthy testing and retraining program. The special privileges afforded to British and Commonwealth doctors will likely be abolished. There is no indication that other foreign doctors will be any better treated, however.

Lawyers/Law Firms: Foreign law firms have been barred from hiring local lawyers to advise clients on local law—even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. In amendments passed earlier this year, foreign law firms may now become "local law firms" and hire Hong Kong attorneys, but they must do so on a strict 1:1 ratio with foreign lawyers. In addition, there are restrictions on use of firm names for foreign firms. For foreign firms already in Hong Kong, the situation has improved. However, for new-to-market firms, the playing field is still not level. With respect to qualifying to practice Hong Kong law, the Law Society has been working on a revised exam that should facilitate U.S. attorneys' ability to sit and pass the Hong Kong bar exam.

Airport Aviation Services: At Hong Kong's present airport, Kai Tak, maintenance, cargo handling, catering and other aviation services are provided by one of two UK-affiliated companies. This has prevented U.S. service providers from competing and has denied U.S. airlines adequate competitive choice and prices. The Provisional Airport Authority, overseeing construction of the new airport, has committed to having multiple service providers. The United States has strongly urged Hong Kong economic policy-makers to follow through on the commitment to expand competition in these areas, notwithstanding the pleas by the duopolists for an extension of their privileged positions.

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 met twice in 1994 to seek an independent bilateral agreement. The U.S. is pressing for a substantially more open civair market, including "fifth freedoms" for cargo and more fifth freedoms and additional gateways for passenger carriers.

High Alcohol Taxes: In 1994 Hong Kong amended its alcohol taxation system, moving to a 90/100 percent ad valorem tax on grape wines and spirits respectively. This is an improvement over the prior system from the perspective of most U.S. alcoholic beverage exporters. However, the high tax rate is an impediment to expanding U.S. sales.

6. Export Subsidies Policies

The government neither protects nor directly subsidizes manufacturers, despite calls from some local legislators to do so. However, a number of quasi-governmental organizations do provide substantial indirect support to industry.

The Hong Kong Trade Development Council (HKTDC) engages in export and import promotion activities with a total revenue of US $148 million and a total expenditure of US $106 million. About half of HKTDC's budget comes from a tax on exports (0.05 percent) and imports (0.035 percent), and the other half from internal operations (trade shows, magazines).

In August 1994, the U.S. Trade Representative's (USTR) office, acting on a Section 308 petition filed by a Hong Kong publishing company with U.S. financial interests, sought information from the HKTDC with respect to its trade publications. Specifically, the petitioner stated that the HKTDC subsidized its trade magazines, permitting HKTDC's magazines, which are direct competitors with the private sector, to charge advertising rates up to 50 percent below market price. On November 4, the Hong Kong government supplied information to the USTR's questions. In the meantime, Hong Kong also submitted a page of questions of its own to the USTR about similar U.S. promotional activities.

In answer to one of the USTR's questions, the HKTDC acknowledged that it had, in one case, provided US $300,000 in legal defense funds to Hong Kong sweater makers facing dumping duties in the United States. The HKTDC pointed out that U.S. courts subsequently rejected the U.S. government's findings of dumping, thus justifying HKTDC's support of Hong Kong's manufacturers.

Another statutory body, the Hong Kong Industry Technology Center Corporation (HKITCC), established in June 1993, promotes technological innovation and application of new technologies in Hong Kong industry. The government has allocated US $26 million to the center, together with a loan of US $24 million for research and design activities. The loan is interest bearing at seven percent per year. The main programs are incubation, technology transfer and research and design support services. There are now six pilot projects. These companies enjoy a 70 percent discount on the market rental of the tech center offices, and 45 percent and 25 percent in subsequent years. Any Hong Kong registered company is eligible to apply, provided it is less than three years old and has fewer than 20 employees.

The Hong Kong Productivity Council (HKPC) is financed by annual government allocations and by fees earned from its services. With 500 staff members, HKPC provides a variety of training programs, industrial and management consultancies, and technical support services. HKPC invites local companies to join consortia to share the design and development cost of new products.

The Hong Kong Export Credit and Insurance Corporation (ECIC), a statutory body set up in 1966, provides insurance protection to exporters.

7. Protection of U.S. Intellectual Property

Hong Kong's intellectual property laws and their enforcement are among the best in the world. However, with a massive increase in pirate production in China over the last twelve months, especially in music and software compact discs, the Hong Kong market has suffered.

Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Bern International Copyright Convention, and the Geneva and Paris Universal Copyright Conventions. Hong Kong has enacted laws covering trademarks, copyright for trade descriptions (including counterfeiting), industrial designs, maskworks, and patents.

Inasmuch as Hong Kong's intellectual property statutes are based chiefly on laws of the United Kingdom, they will have to be "localized" for post–1997 application. Drafts of the laws indicate that, if anything, the process of localization will be used by the Hong Kong government to strengthen existing laws.

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 US $2.5 million and 614 seizures of goods violating trademarks and trade descriptions with a total value of US $50 million.

Most of the pirate manufacturers have been driven out of Hong Kong in the last several years. However, many have established operations across the border in south China. One U.S. music company has seen its sales in Hong Kong fall 40 percent in the last six months. Hong Kong judges have handed down penalties that seemed at times too light to be a deterrent, although recent cases indicate sentences may be getting tougher. However, attacking pirate production at its source will be the most effective remedy for Hong Kong's market.

8. Worker Rights

Protection afforded under Hong Kong ordinances extends to both local and foreign workers 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 provided for 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 latter is not widely practiced and there are no mechanisms to specifically encourage it. Instead, a dispute settlement system administered by the government is generally resorted to in the case of disagreements. In the case of a labor dispute, should initial conciliation efforts prove unsuccessful, the matter may be referred to arbitration with the consent of the parties or a board of inquiry may be established to investigate and make suitable recommendations.

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

d. *Minimum Age of Employment of Children.*—Under regulations governing the minimum age for employment of children, minors are allowed to do limited part-time work beginning at age 13 and to engage in full-time work at age 15. Employment of females under age 18 in establishments subject to liquor regulations is prohibited. The Labor Inspectorate conducts work place inspections to ensure that these regulations are being honored.

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 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		496
Total Manufacturing		2,660
Food & Kindred Products	−1	
Chemicals and Allied Products	149	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	302	
Electric & Electronic Equipment	1,559	
Transportation Equipment	(1)	
Other Manufacturing	531	
Wholesale Trade		3,624
Banking		1,079
Finance/Insurance/Real Estate		1,562

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
Services	443
Other Industries	594
TOTAL ALL INDUSTRIES	10,457

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

INDONESIA

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1983 prices)	64,623	66,942	69,013
Real GDP Growth (pct.)	6.9	6.5	6.7
GDP (at current prices)	128,022	144,713	157,230
By Sector:			
Agriculture	24,992	26,711	29,021
Mining	14,733	14,734	16,008
Manufacturing	27,853	32,315	35,110
Electricity/Gas Water	1,058	1,301	1,413
Construction	7,540	8,692	9,444
Retail Trade and Hotels	21,050	23,857	25,920
Transportation/Comm.	8,423	9,932	10,791
Banking/Finance	6,157	7,310	7,943
Real Estate	3,249	3,647	3,962
Government	8,527	10,761	11,692
Other Services	4,440	5,455	5,927
Real Per Capita GDP	691	768	821
Labor Force (millions)	79	81	83
Unemployment Rate (pct.)	3.2	3.4	3.4
Underemployment Rate (pct.)	36.6	36.8	37.0
Money and Prices (annual percentage growth):			
Money Supply (pct. rise)	20.0	26.5	15.0
Interest Rate [1]	11.3	7.0	10.6
National Savings (pct. GDP)	25.0	25.0	25.0
CPI (pct. change)	5.0	10.2	10.0
WPI (pct. change)	5.3	3.6	7.4
Exchange Rate (Rp/USD) [2]	2,030	2,087	2,160
Balance of Payments and Trade:			
Total Exports	33,966	37,459	41,311
Exports to U.S.	4,332	5,439	5,999
Total Imports	27,279	28,587	31,446
Imports from U.S.	2,777	2,770	3,254
Aid from U.S.	155	94	90
Aid from All Sources	4,948	5,110	5,202
Foreign Debt (official/private)	72,927	85,837	89,858
Debt Service Ratio	32.1	30.0	31.2
Foreign Exchange Reserves	11,161	12,352	13,140
Trade Balance	6,687	8,872	9,865
Trade Balance with U.S.	1,555	2,669	2,745

N/A—Not available.

[1] Interbank fund rates.
[2] Period average.

1. General Policy Framework

Indonesia is an economic success story. In 1967, when President Soeharto took power, it was one of the world's poorest countries, with per capita GNP of $70 per person, half that of India and Bangladesh. In 1993, Indonesia's per capita GNP passed $700, triple that of Bangladesh and more than double India's. Life expectancy has risen dramatically—from 41 in 1967 to 63 in 1993—while infant mortality and illiteracy rates have plummeted.

Real GDP growth has averaged 6.7 percent per year over the last five years. Through a restrictive monetary policy and a conservative fiscal stance, the government has held inflation to the 5–10 percent range. With strong export performance and manageable import growth, the current account deficit dropped from $4.4 billion in 1991 to $1.9 billion in 1993.

Prospects for continued growth are good. Government and private sector projects are alleviating infrastructure shortages, particularly in telecommunications, electric power, and roads. The banking industry continues to adjust to the more stringent prudential regulations introduced in 1991 and modified in 1993; credit constraints began to ease in late 1993.

In 1994 Indonesia continued to take steps to open the economy. Indonesia ratified the Uruguay Round agreements and became a founding member of the World Trade Orgainization on January 1, 1995. Indonesia was the 1994 chairman of APEC (Asia Pacific Economic Cooperation); on November 15 President Soeharto hosted leaders of the APEC economies at a meeting in which they declared the goal of reaching free trade in the region by the year 2020.

In June 1994, the government issued another deregulation package aimed at improving the investment climate. This set of measures opened up several previously closed sectors to foreign investment and eliminated barriers to 100 percent foreign-owned investment in most, but not all, sectors. Further progress is needed, however, to eliminate remaining barriers to foreign and domestic trade, to replace the outdated commercial code, and to establish clear and transparent accounting and auditing standards.

Indonesia's development is good news for U.S. business. U.S. exports to the country have doubled since 1988, totaling 2.8 billion dollars in 1993. The best prospects for U.S. exporters stem from the government's efforts to improve infrastructure; they include equipment for power generation, telecommunications, roads, harbors, and airports. U.S. exporters can also provide inputs for Indonesia's rapidly expanding manufacturing sector. For example, the United States already supplies about half of the textile industry's requirements for cotton.

2. Exchange Rate Policies

The government has maintained the convertibility of the rupiah since the 1960s. There have been no foreign exchange controls since 1972. The government follows a managed float based on a basket of major trading currencies, including the U.S. dollar. Current policy is to maintain the competitiveness of the rupiah through a gradual depreciation against the dollar, at a rate of about five percent a year. The exchange rate at the end of October 1994 was 2,170 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. Direct government subsidies are confined to a few goods such as fertilizers.

Individuals and businesses are subject to income taxes. The maximum rate is 35 percent of annual earnings in excess of rupiah 50 million (about $25,000), but the government has introduced legislation that would reduce the maximum rate to 30 percent. 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, usually with the goal of job creation. For example, 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 $95 billion, with $60 billion owed by the state sector and $35 billion by the private sector. In 1994 Indonesia will pay approximately 31 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. The team is also charged with prioritizing by project the use of offshore funds 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.

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 lifted the previous ban on most types of completely built-up passenger vehicles, although the ban was replaced with high import duties and surcharges, totalling as much as 300 percent in many cases. Automotive imports have followed previous patterns, in which nontariff barriers such as bans and licensing requirements have been replaced with tariffs and surcharges.

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 although they are not allowed to establish 100 percent foreign-owned subsidiaries or branches. In all cases, capitalization requirements for foreign joint venture firms are higher than for domestic firms. Foreigners may 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 facility 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. In November 1994 the government issued the final set of regulations necessary to allow U.S. video companies to work with Indonesian distributors to provide legal video and laser disc rentals and sales.

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

Investment Barriers: By enacting a new deregulation package in June 1994, the government took a large step forward in improving Indonesia's investment climate. The package, known as PP 20, dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law now provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of 5 percent. In addition, PP 20 opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads and water supply. Some sectors, however, remain restricted or closed to foreign investment. For example, foreign investors may not invest in retail operations. They may, however, distribute their products at the wholesale level.

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

seeks to function as a one-stop investor service, most investors will also need to work closely with various technical government departments and with regional and local authorities. There are limited provisions under which foreign nationals may exploit or occupy real property in Indonesia, but ownership is limited to Indonesian citizens. There are numerous restrictions on the employment of foreign nationals, and obtaining expatriate work permits can be difficult.

Government Procurement Practices: In March 1994 President Soeharto signed a decree which regulates government procurement practices and strengthens the procurement oversight process. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. Under a 1984 Presidential Instruction ("Inpres–8") on government-financed projects, the government seeks concessional financing which meets the following criteria: 3.5 percent interest and a 25 year repayment period which includes 7 years grace. Some projects proceed, however, on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible. (This is not mandatory for foreign aid-financed goods and services procurement.) An October 1990 government regulation exempts state-owned enterprises which have offered shares to the public through the stock exchange from government procurement regulations; as of November 1994 only two such enterprises had made a public offering.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization and is a party to certain sections of the Paris Convention for the Protection of Intellectual Property. It withdrew from the Berne Convention for the Protection of Literary and Artistic Works in 1959. Indonesia has made progress in intellectual property protection, but it remains on the U.S. Trade Representative's Special 301 "Watch List" under the provisions of the 1988 Omnibus Trade and Competitiveness Act.

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

Trademarks: A new Trademark Act took effect on April 1, 1993. Under the new law, trademark rights will be determined by registration rather than first use. After registration, the mark must actually be used in commerce. Well-known marks are protected. However, there are some remaining problems with marks filed prior to 1991. 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 each other's copyrighted works. Enforcement of the ban on pirated audio and video cassettes and textbooks has been vigorous, although software producers remain concerned about piracy of their products. The government has demonstrated that it wants to stop copyright piracy and that it is willing to work with copyright holders toward this end. Enforcement to date has significantly reduced losses from pirating, but leakages still exist.

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

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

8. Worker Rights

a. *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 mass organization with the Department of Home Affairs and meet the requirements for recognition by the Department of Manpower. (In January 1994, a new government regulation authorized non-affiliated "Plant Level Unions" to be set up in individual plants and to negotiate binding collective signing agreements.) While there are no formal constraints on the establishment of unions, the recognition requirements are a substantial barrier to recognition and the right to engage in collective bargaining. The one union recognized by the Department of Manpower is the All Indonesia Workers Union (Serikat Pekerja Seluruh Indonesia, SPSI). Its membership is approximately 994,500, or about 1.4 percent of the total work force. However, if agricultural workers and others in categories such as self-employed and family workers who are not normally union members are factored out, the percentage of union members rises to approximately six percent.

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

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is provided for by law, but only recognized trade unions and "plant level 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 forbid employers from discriminating or harassing employees because of union membership, but in practice retribution against union organizers occurs.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is forbidden by law. Indonesia has ratified ILO convention No. 29 concerning forced labor.

d. *Minimum Age for Employment of Children.*—Child labor exists in both industrial and rural areas. The Department of Manpower acknowledges that there is a class of children under the age of 14 who, for socioeconomic reasons, must work and legalizes their employment provided they have parental consent and do not engage in dangerous or difficult work. The workday is limited to four hours. Employers are also required to report in detail on every child employed, and the Department of Manpower carries out periodic inspections. Critics, however, charge that the inspection system is weak and that employers do not report when they employ children.

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

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

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains control over all activity. All employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesian labor laws but, with some exceptions, they do not have the right to strike, join labor orga-

nizations, 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		4,552
Total Manufacturing		160
Food & Kindred Products	(1)	
Chemicals and Allied Products	61	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	−1	
Other Manufacturing	(1)	
Wholesale Trade		−25
Banking		95
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		222
TOTAL ALL INDUSTRIES		5,031

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

JAPAN

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP	3,322.6	3,786.7	[1] 4,110.0
Real GDP Growth (pct.)	1.1	−0.2	[2] 1.0
Nominal GDP	3,662.5	4,214.1	[1] 4,595.3
Real GDP by Sector:			
Agriculture/Fisheries	77.6	N/A	N/A
Mining	8.5	N/A	N/A
Manufacturing	1,034.3	N/A	N/A
Construction	291.9	N/A	N/A
Electricity/Gas	110.2	N/A	N/A
Wholesale/Retail	465.7	N/A	N/A
Finance/Insurance	192.3	N/A	N/A
Real Estate	327.6	N/A	N/A
Transportation	207.7	N/A	N/A
Services	470.0	N/A	N/A
Per Capita Income (USD)	22,861	N/A	N/A
Labor Force (millions)	65.8	66.1	[3] 66.4
Unemployment Rate (pct.)	2.2	2.9	[3] 2.8

Key Economic Indicators—Continued

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

	1992	1993	1994
Money and Prices (annual percentage growth):			
Money Supply (M2+CD annual avg./pct.)	0.6	1.1	[3] 1.8
Commercial Interest Rates (10-yr govt bonds/yr-end)	4.52	3.02	[4] 4.56
Savings Rate (pct.)[5]	14.3	N/A	N/A
Investment Rate (pct.)[6]	26.3	25.3	[1] 24.1
CPI (1990=100)	105.0	106.4	[3] 107.1
WPI (1985=100)	97.8	95.0	[7] 93.2
Exchange Rate (Yen/USD)	126.65	111.20	[7] 102.66
Balance of Trade:			
Total Exports (FOB)	339.6	360.9	[8] 288.7
Exports to U.S. (FAS)	97.2	107.3	[8] 86.2
Total Imports (CIF)	233.0	240.7	[8] 198.4
Imports from U.S. (CIF)	47.8	48.0	[8] 46.7
Trade Balance with U.S.	49.6	59.3	[8] 39.5
Balance of Payments:			
Current Account	117.6	131.4	[9] 89.2
Trade Account	132.3	141.5	[9] 98.1
Services/Transfers	−14.8	−10.1	[9] −9.0
Long-Term Capital	−28.5	−78.3	[10] −24.4
Basic Balance	89.1	53.1	[10] 61.9
Short-Term Capital	−7.0	−14.4	[10] −6.3
Gold & FOREX Reserves (yr-end)	68.7	95.6	117.5

N/A—Not available.
[1] Jan–June, S.A.A.R.
[2] Jan–June, year-over-year. Estimated 1994 figure.
[3] Jan–August, average S.A.
[4] End of September.
[5] Savings as percent of personal disposable income.
[6] Public and private domestic fixed capital formation and inventory investment/nominal GNP.
[7] Jan–August average, N.S.A.
[8] Jan–September cumulative, N.S.A.
[9] Jan–August cumulative, S.A.
[10] Jan–August cumulative, N.S.A.

1. General Policy Framework

In 1993, the Japanese economy, the world's second largest at more than $4 trillion, posted its lowest calendar year GDP growth since 1974, negative 0.2 percent for the year. Output declined slightly in 1994, the first time since the early 1970s.

Japan is now recovering from the second longest economic slowdown in Japan's postwar history. Prior to the slowdown that began in 1991 and lasted through 1993, Japan had never experienced two consecutive years of less than 3 percent real growth. The surge in asset prices and high rates of capital investment and hiring in the late 1980's gave way, by 1991, to sharply slower growth, corporate restructuring, and balance sheet adjustment by businesses and consumers. Very low levels of utilization for existing capacity suggest that business investment will be a lagging factor in the current recovery.

Japan's 1993 external accounts posted record global trade and current account surpluses of $141 billion (BOP basis) and $131 billion, respectively. Sluggish domestic demand slowed growth in import volume, while exports, especially to other Asian markets, continued to grow steadily. Yen appreciation helped swell dollar-denominated surpluses in the short run through the so-called "J-curve effect." Over the longer run, yen appreciation since 1990, plus eventual recovery in domestic demand, is widely expected to contribute some downward adjustment in Japan's external imbalance.

In recent years, the Japanese government has used public spending to counter the overall negative contribution of private demand to domestic demand growth. Four fiscal stimulus packages between August 1992 and February 1994 injected a substantial amount of public works spending into the economy, some of which is still being disbursed in 1994.

In 1994 the Diet passed tax reform legislation that will extend FY 1994 income tax cuts totalling yen 5.5 trillion ($55 billion) through FY 1995. A "permanent" por-

tion of the income tax cut (yen 3.5 trillion/$35 billion) will continue thereafter. The remaining "temporary" portion (yen 2 trillion/$20 billion) of the tax cut is currently scheduled to be dropped after 1996, but may be dropped at the end of 1995. To offset the tax cut, beginning in April 1997, the consumption tax (a value-added tax) is to be raised from the current rate of three percent to five percent. In addition, the government announced a new public works investment program totaling yen 630 trillion ($6.3 trillion) that will run from FY 1995 through FY 2004.

In order to ease credit conditions, the Bank of Japan lowered the Official Discount Rate (ODR) seven times between mid-1991 and September 1993, from 6.0 percent/year to 1.75 percent, a record low. Nominal interest rates set new record lows during 1994; yet demand for funds, particularly for investment purposes, remained relatively weak, as shown by year-on-year declines in bank lending from mid-1994. The Bank of Japan continues to focus on the ODR as its primary policy adjustment tool, and, through its daily operations, on provision of funds in the money market for "fine tuning."

2. Exchange Rate Policy

The yen has appreciated against the dollar over the past year, moving above the 100/1 dollar level for the first time in the summer of 1994. On paper, Japan ended most foreign exchange controls in 1980. In practice, numerous controls remain on foreign exchange-related transactions and impede the provision of financial services by competitive foreign firms.

3. Structural Policies

The Japanese economy remains in transition. Structural change has been a market-driven response to domestic economic conditions and the changing global competitive environment. In the past decade, efforts at economic deregulation also contributed to change.

The Japanese government, which formerly directed considerable public and private resources to priority areas, has been gradually moving away from such industrial policy measures, partly in response to criticism of export-oriented policies. The government still has a direct role in promoting and organizing cooperation among Japanese high technology firms, using off-budget resources and small amounts of appropriated funds to contribute to investment projects and government-private sector efforts.

From 1989 to 1992, United States-Japan structural economic issues were handled under the Structural Impediments Initiative (SII). SII targeted structural problems in both countries that impeded reduction of foreign payments imbalances. Under SII Japan agreed to liberalize elements of its distribution system, liberalize its foreign direct investment regime, improve disclosure rules governing transactions among related companies (in order to help make business practices more transparent), and strengthen anti-monopoly enforcement. Moreover, under SII, the U.S. and Japan conducted two joint price surveys to demonstrate that Japan's structural impediments contribute to unusually high price differentials between Japan and other overseas markets. The issues taken up in SII talks are now addressed as appropriate under U.S.-Japan Framework discussions.

Japan's economy remains heavily regulated, which reinforces business practices that restrict competition and keep prices high. Price controls remain on certain agricultural products. Bureaucratic obstacles to new firms' entry into businesses such as trucking, retail sales and telecommunications slow structural adjustment. The Government of Japan has made deregulation a key theme, issuing its "Policy for Promoting Deregulation" on June 28, 1994. In this connection, the Prime Minister's Office is leading a government-wide effort to draft a five-year deregulation action plan that is expected to set the policy tone and scope of deregulation in Japan until 2000. Implementation of the action plan will begin April 1, 1995.

In 1993, the Clinton Administration announced the U.S.-Japan Framework for a New Economic Partnership. A goal of the Framework is to make our economic ties with Japan more balanced and mutually beneficial, as well as to promote global growth, open markets, and a vital world trading system. The Framework addresses the wide range of U.S.-Japan economic and trade issues through negotiations on macroeconomic, structural and sectoral matters. The structural and sectoral issues are divided into five "baskets" for discussion: government procurement, regulatory reform and competitiveness, economic harmonization, implementation of existing agreements and other major sectors (including autos and auto parts).

Structural negotiations are ongoing under Framework areas such as deregulation and competition policy, foreign direct investment, buyer-supplier relationships, and access to technology. In the deregulation and competition policy discussions, the U.S. has provided detailed suggestions, on areas ranging from telecommunications

to retail policy, for reforms to be included in Japan's five-year deregulation plan. The goal of the Framework's foreign direct investment and buyer-supplier talks is to increase the market presence in Japan of U.S. and other foreign firms by encouraging a more open and flexible investment regime. The United States has made many specific recommendations to the Japanese government.

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

The Japanese government has removed many formal barriers to imports of goods and services. Import licenses, 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 (about two percent) is one of the lowest in the world, and Japan has agreed to further tariff reductions in the Uruguay Round. The Uruguay Round Agreement will reduce but not eliminate trade barriers in agriculture, manufactured goods, and services.

Traditional trade policy measures, however, are not the greatest obstacles to penetrating Japanese markets. Instead of tariffs and official discrimination against imports, U.S. exporters must deal with numerous factors that raise costs and inhibit access in areas ranging from glass to auto parts. These obstacles include archaic and multi-tiered distribution systems, "keiretsu" (networks between manufacturers and distributors linked by long-time business relationships and often by cross-holding of shares) relationships, excessive government regulation and the use of administrative guidance, public procurement practices, and the high cost of land (which inhibits new market entrants).

In October 1994, the United States and Japan signed important market-opening agreements under the Framework; agreements were signed in insurance and government procurement of medical technology and telecommunications goods and services (including procurement by Japan's massive phone company, Nippon Telegraph and Telephone (NTT)). In December 1994, the United States and Japan finalized an agreement to open Japan's flat glass sector to foreign suppliers. In addition, U.S. and Japanese negotiators reached agreements in 1994 in a number of other areas, including opening Japan's huge public works construction sector to foreign firms; improving access to Japan's cellular telephone market; eliminating barriers to imports of apples; and streamlining and improving intellectual property procedures.

In the last few years, Japan also agreed to relax rules on value-added telecommunications services, to strengthen copyright protection for U.S. music recordings, and to resolve a dispute involving amorphous metals, for which market entry has been facilitated. The United States continues to closely monitor U.S.-Japan agreements including those in the areas of commercial satellites, government procurement of supercomputers, semiconductors, construction, wood products, paper, medical products and pharmaceuticals, and computer procurement. In 1994, the United States announced that impediments to U.S. market access for paper and wood products in Japan may warrant future identification of these sectors for action under the "Super 301" Executive Order. In 1994, the United States also initiated a Section 301 investigation of regulatory barriers in Japan's market for replacement (after market) auto parts. Framework negotiations on autos and auto parts continue.

The governments of the United States and Japan announced on January 10, 1995, a comprehensive financial services agreement under the U.S.-Japan Framework Agreement that will further open Japan's financial markets to foreign competition. The agreement will ensure that U.S. financial institutions have the opportunity to compete more effectively in the Japanese financial market. Inter alia, the agreement opens the $1 trillion Japanese pension market to effective participation by foreign fund managers. The agreement also creates greater opportunities for foreign financial firms to participate in the $500 billion Japanese corporate securities market by permitting greater scope for the introduction of new financial instruments. Finally, the agreement will promote further integration of Japan's capital market with the global capital markets, and will create significant opportunities for competitive financial institutions to help Japanese invest abroad and Japanese firms to offer securities in offshore markets.

The ability of foreign architectural and construction firms to access Japan's public works market continues to be closely scrutinized by the U.S. government. For many years, Japan has engaged in exclusionary practices which have prevented foreign

firms from competing successfully on contracts for major Japanese construction projects. To remedy this situation, the U.S. government negotiated the 1988 Major Projects Arrangements (revised in 1991) which gave foreign firms improved access to thirty-four major construction projects with the understanding that experience gained on these would assist foreign firms in winning contracts on other construction projects. Despite these agreements, U.S. architectural, engineering, and construction firms continued to face difficulties in doing business in Japan. As a result, Japan was designated under Title VII of the 1988 Omnibus Trade and Competitiveness Act for discriminatory procurement practices. Following months of intensive negotiations with the United States, in January 1994 Japan adopted a new Action Plan to overhaul its current public works procurement system. The Action Plan replaces the designated bidding system (under which only specified companies could offer bids) with an open and competitive system, allows foreign firms' international experiences to be considered when determining a firm's qualifications, and applies to all procurement above a certain threshold, not just the thirty-four major projects. A formal review of the implementation of this Action Plan will occur during the spring of 1995.

In addition to progress in the public works area, Framework agreements in October 1994 improved access for foreign firms to government procurement of medical technology and telecommunications goods and services. The United States continues to monitor Japanese government procurement practices to assure that U.S. firms are given an opportunity to compete fairly and openly.

Legal services remain on the U.S./Japan trade agenda. Despite partial liberalization in 1987 which allowed U.S. law firms to open offices in Japan, the Government of Japan continues to maintain severe restrictions on the way in which foreign firms can provide legal services. For example, foreign firms are prohibited from employing or entering into partnership with Japanese attorneys, and lawyers who are not qualified Japanese lawyers may not advise clients on points of Japanese law.

In December 1993, U.S. negotiators included legal services in the U.S. package submitted to the GATT. This decision effectively froze the current practice regarding legal services performed by foreign lawyers in GATT signatory countries which had agreed to include legal services in the final agreement.

Although the Japanese government has simplified, harmonized and, in some cases, eliminated restrictive product standards to follow international practices in a number of areas, many problems remain. The 1985–1987 Market-Oriented Sector Selective (MOSS) Talks resolved many standards problems and set in motion a continuing dialogue through MOSS follow-up meetings of experts.

In general, advances in technology make some current Japanese standards outdated and restrictive. In addition, Japanese industry supports unique safety standards that limit competition. Lastly, bureaucratic inertia inhibits further standards simplification. Standards problems continue to hamper market access in Japan.

Japan's Office of the Trade Ombudsman (OTO) traditionally only responded when an aggrieved party, such as a foreign company or domestic importer, complained about Japanese standards, certifications, and testing procedures. Since 1993, the OTO has brought its own cases to the attention of the Japanese government bureaucracy. Although the U.S. government had hoped the new process would lead to greater pressure on the bureaucrats to change, thus far, the OTO has accomplished very little. Of the twenty-one requests brought before the OTO in 1993, regulations in only seven areas were revised satisfactorily (only two of which involved issues raised by the United States). The OTO seems to have made the most progress in technical areas where the complainant made a good case and where Japanese government bureaucratic resistance to changes was light. The OTO process has not been useful in pursuing policy issues or politicized market access problems, e.g. removal of the tariff on feedgrains. In February 1994, the OTO was upgraded when it was moved to the Office of the Prime Minister, but it was still not granted any enforcement authority. While Government of Japan effort to strengthen the OTO may have boosted the office's profile, it is unlikely to significantly improve the OTO's effectiveness.

Foreign investment into Japan in most sectors is now subject to only ex post notification to the Ministry of Finance (MOF), thanks to MOF commitments made under SII. Previously, all foreign investors were required to notify the MOF of their intent to invest 30 days before any investment occurred. Japan still requires prior approval in certain sectors: air and maritime transport, space development, atomic energy, oil and gas production and distribution, agriculture, fisheries, forestry, leather and leather products manufacturing, and tobacco manufacturing.

Foreign investment in the banking and securities industries is subject to a reciprocity requirement. Japan gives foreign investors national treatment after entry, with the Organization for Economic Cooperation and Development (OECD) notified

of limited exceptions. 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, inward foreign direct investment in Japan is much lower than that in its major G–7 trading partners. There are a number of factors underlying the low level of inward investment, including the legacy of many years of active Japanese government discouragement of foreign investment. A major problem today, however, is the high cost of doing business in Japan, particularly for new market entrants, that makes the rate of return on investments far lower than other alternatives. In addition, foreign acquisition of existing Japanese companies is difficult, due in part to crossholding of shares among allied companies, leading to the limited availability of publicly traded common stock. This practice complicates efforts of foreign firms to acquire existing distribution/service networks through mergers and acquisitions. The Japanese government has taken some initial steps to provide incentives to foreign investors. This issue is under discussion in Foreign Direct Investment sub-basket of the Framework.

6. Export Subsidies Policies

Japan is a signatory to the OECD Export Credit Arrangement, including the agreement on the use of tied-aid credit. The Japanese government subsidizes exports as permitted by the Arrangement, which allows softer terms for export financing to developing nations. Of the $11.5 billion of official development assistance that Japan disbursed in 1993, slightly less than half of the bilateral assistance portion (excluding Central Europe assistance) was in the form of concessional loans. In this area, Japan has virtually eliminated its tied-aid credits and now extends over 95 percent of its new loan aid under untied terms. But U.S. exporters continue to face difficulties in competing due to the use of (1) Less Developed Country (LDC) untied aid, where bidding is only open to Japanese and LDC firms, and (2) tied or partially tied feasibility studies (provided by grant aid) for untied (loan aid) projects which result in project specifications more suited to Japanese than U.S. bidders. These programs are the subject of continued discussions within the OECD. Japan exempts exports from the three percent VAT-like consumption tax initiated in April 1989. This provision does not appear to have any significant impact on a manufacturer's decision to sell domestically or export.

7. Protection of U.S. Intellectual Property Rights

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

Many Japanese firms use the patent filing system as a tool of corporate strategy, filing many applications to cover slight variations in technology. Public access to applications and compulsory licensing provisions for dependent patents facilitate this practice. The rights of U.S. filers in Japan are often circumscribed by prior filings of applications for similar inventions or processes. The need to respond individually to multiple oppositions slows the process and makes it more costly. Japanese patent examiners and courts interpret patent applications narrowly and adjudicate cases slowly. Japanese patent law lacks a doctrine of equivalence and civil procedure lacks a discovery procedure to seek evidence of infringement.

Average patent pendency in Japan is one of the longest among developed countries, averaging over five years from application to grant. The long pendency period, coupled with a practice of opening all applications to public inspection 18 months after filing, exposes patent applications to lengthy public scrutiny without effective legal protection. Bilateral talks on Japan's slow patent processing led to a reduction in the average patent examination portion of the pendency period, from about 37 months to 30 months. Efforts to reduce this period continue.

A United States-Japan IPR agreement, signed in August 1994 under the Framework, will provide some relief to problems posed by the lengthy pendency period and the practice of multiple opposition filing. The Japan Patent Office will introduce legislation to revise the current system by April 1, 1995. The agreement is to be fully operational by January 1, 1996. The revised system will allow opposition filings only after a patent is granted. Multiple opposition filings will be consolidated and addressed in a single proceeding, minimizing time and costs. There will also be a re-

vised, accelerated examination system, the major elements of which are: (a) patents already filed with accredited foreign patent authorities will be eligible for accelerated examination in Japan; (b) accelerated examination applications will be granted or abandoned within 36 months of the request date; and (c) there are limits on accelerated examination fees.

Trademark applications are also processed slowly, averaging two years and three months and sometimes taking three to four years. Infringement carries no penalty until an application is approved. In April 1992, Japan amended the trademark law to protect service marks explicitly.

Japanese copyright protection for programming languages and algorithms is ambiguous. Pirated video sales remain a problem, although the Japanese police cooperate with the Motion Picture Association of America in targeting video pirates, under 1988 Japanese IPR legislation that facilitates prosecution. Japan has committed to enforce vigorously national treatment rights. A revised copyright law, which was passed in 1991 and took effect in January 1992, extends copyright protection to 30 years. Pre–1978 foreign recordings are now protected back to 1969; foreign recordings are provided with exclusive rights by cabinet order. Discussions by an advisory panel to the Japanese government on a proposal to relax legal restrictions against reverse engineering of software and decompilation of computer programs took place in 1994, but the panel ultimately took no action on the matter and instead recommended further study. The U.S. government and U.S. software companies registered their strong objection to any change.

Although Japan's 1990 Trade Protection Law is an improvement over 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.*—This right as defined by the International Labor Organization (ILO) is protected in Japan.

b. *The Right to Organize, Bargain and Act Collectively.*—This right is assured by the Japanese constitution. Approximately 25 percent of the active work force belongs to labor unions. Unions are free of government control and influence. The right to strike is implicitly assumed by the constitution, and it is exercised frequently. Public employees, however, do not have the right to strike, although they do have recourse to mediation and arbitration in order to resolve disputes. In exchange for a ban on their right to strike, government employee pay raises are determined by the government, based on a recommendation by the Independent National Personnel Authority.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Standards Law prohibits the use of forced labor, and the law is vigorously enforced.

d. *Minimum Age of Employment of Children.*—Under the Revised Labor Standards Law of 1987, minors under 15 years of age may not be employed as workers, and those under the age of 18 may not be employed in dangerous or harmful work. Child labor laws are rigorously enforced by the Labor Inspection Division of the Ministry of Labor.

e. *Acceptable Conditions of Work.*—Minimum wages are set regionally, not nationally. The Ministry of Labor effectively administers various laws and regulations governing occupational health and safety, principal among which is the Industrial Safety and Health law of 1972.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		5,429
Total Manufacturing		13,610
Food & Kindred Products	806	
Chemicals and Allied Products	3,189	
Metals, Primary & Fabricated	260	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	3,800	
Electric & Electronic Equipment	1,614	
Transportation Equipment	1,824	
Other Manufacturing	2,118	
Wholesale Trade		5,859
Banking		309
Finance/Insurance/Real Estate		4,780
Services		740
Other Industries		666
TOTAL ALL INDUSTRIES		31,393

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

SOUTH KOREA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP Growth (pct.)	5.1	5.5	7.6
GDP (at current prices)[2]	307,919	330,819	371,600
By Sector:			
Agriculture/Forestry/Fisheries	22,807	23,402	26,012
Manufacturing	85,449	89,647	100,698
Electricity/Gas Water	6,770	7,575	8,509
Construction	42,104	45,133	50,696
Financial Services	51,137	56,439	63,396
Other Services	57,887	62,431	70,127
Government/Health/Education	60,048	65,662	73,756
Net Exports of Goods & Services	−3,083	1,318	−1,900
Per Capita GDP (USD)	7,046	7,501	8,350
Labor Force (000's)	19,426	19,803	20,800
Unemployment Rate (pct.)	2.4	2.8	2.6
Money and Prices: (annual percentage rate)			
Money Supply (M2)	18.4	18.6	15.0
Yield on Corp. Bonds (pct.)[3]	16.2	12.6	12.5
Personal Saving Rate[3]	27.1	26.4	27.0
Retail Inflation	6.2	4.8	6.3
Wholesale Inflation	2.2	1.5	2.5
Consumer Price Index (1990 base)	116.1	121.7	129.4
Average Exchange Rate (US$/1,000 won)	1.281	1.246	1.245
Balance of Payments and Trade:			
Total Exports (FOB)[4]	76,632	82,234	92,500
Exports to U.S.	18,090	18,138	19,590
Total Imports (CIF)[4]	81,775	83,800	97,208
Imports from U.S.	18,287	17,928	20,384
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Debt[5]	42,819	43,870	46,000
Debt Service Payments	5,478	5,500	6,000
Gold and Annual Debt Service	17,154	20,262	23,500
Trade Balance[4] (cost. basis)	−5,143	−1,566	−4,708

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Balance with U.S. (cost. basis)	−197	210	−794

[1] 1994 figures are all estimates based on available monthly data as of October 1994.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not changes in them.
[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 and the protection of domestic industries. 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.

The Korean economy is on the rebound. Growth has been accelerating since mid-1993, and real GDP in the first half of 1994 rose 8.5 percent over year-earlier levels. Industrial production may climb about 10 percent in 1994, and the capacity utilization rate in factories exceeds 80 percent. The expansion is investment-led, as the large conglomerates implement ambitious plans to modernize and expand facilities. Exports, aided by the strength of the yen, remain brisk in 1994, although imports are even more buoyant. Imports from the United States are growing at double-digit rates. Consumption spending, which accounts for over half of total GDP, is rising along with optimism about the economy. Real GDP growth, which averaged 5.5 percent in 1993, will exceed 7 percent in 1994.

Despite faster growth, the economy displays few signs of overheating. Consumer prices jumped 3.3 percent between December 1993 and March 1994 due to food product shortages and public service tariff hikes, but inflation has since moderated. To forestall serious inflation, the Bank of Korea intends to hold money supply growth toward the bottom of its 14 to 17 percent target range in the latter half of 1994.

ROKG macroeconomic policy was lauded in a 1994 OECD review of the Korean economy. Government spending and taxes as a share of GNP, as well as the fiscal deficit, are low by international standards. Moreover, the quality of public expenditure is high, with an emphasis on education and public works rather than transfer payments. The national savings rate has climbed dramatically since the ROKG made inflation control a priority in the early 1980s, and now roughly equals the gross investment ratio at about one third of GNP.

At the microeconomic level, however, government intervention is extensive and costly in terms of economic efficiency. The prices of many products are de facto controlled. The ROKG allocates credit according to firm size and must approve all bond and stock issuances. Most overseas capital transactions are tightly controlled. Investment and product safety regulations inhibit domestic competition and discriminate against foreigners. ROKG task forces have been commissioned to rid the economy of obstructive and redundant regulations, but thus far progress has been marginal.

2. Exchange Rate Policies

The won has appreciated against the dollar by about one percent between January and October 1994. On the other hand, a sharp fall in the external value of the won against the yen has given Korean heavy industries price advantages over their Japanese rivals.

The U.S. Treasury has reported to the U.S. Congress that it finds no evidence of direct exchange rate manipulation by the Korean authorities to gain competitive advantage. However, 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 Subcabinet 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 established counterpart groups to examine specific problems in the areas of taxation, administrative procedures, import clearance, and competition policy, while the plenary sessions dealt with foreign direct investment issues. At the June 1994 Economic Subcabinet meeting, the U.S. side assessed the DEC as moderately successful. Both sides agreed to use the following year to implement the results of the DEC, including continued meetings of the counterpart groups.

4. *Debt Management Policies*

Foreign debt management is no longer a critical issue for the ROKG. Korea's gross foreign debt will total an estimated $46 billion by the end of 1994, while debt service as a share of goods and service exports is around six percent. Net foreign debt, taking into account Korea's numerous overseas assets, is approximately $10 billion.

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*

Formal barriers to imports have fallen, although Korea has raised new, more subtle, secondary barriers that effectively prevent the widespread liberalization envisioned under the major trade initiatives of the late 1980s. A five-year tariff reduction plan ended in 1994, when Korean tariff rates averaged 7.9 percent. As part of the Uruguay Round settlement, the government will continue to reduce tariffs. However, the "tariffication" of some agricultural items formerly subject to quotas may keep the average tariff rate high by international comparison. Korea ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

Korean safeguard regulations permit the government to impose 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. In April 1994, the government reconfirmed this commitment and added a number of key items as part of the Uruguay Round agreements; some of the items will not be liberalized until the year 2000.

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.

Effective January 1, 1993, a Prime Ministerial Decree outlined improved procedures for standards and rules-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. The government plans to introduce a full-fledged Administrative Procedures Act in 1995. Administrative procedures were one of the principal topics of discussion in the DEC. The United States hopes to influence the plans for the Administrative Procedures Act and has commented on intermediate regulations.

The Korean government has begun to implement a five-year program of financial sector reforms, announced in May 1993, to reduce controls on banks and other financial institutions. Measures taken to date include the lifting of many controls on interest rates, removing documentation requirements on most forward foreign exchange contracts, and easing slightly foreign banks' access to won currency funding. However, under the timetable for reform some critical measures, such as full won convertibility and freedom of capital movements, are not scheduled to be achieved until 1997. Moreover, in a number of areas government restrictions continue to deny national treatment to foreign banks and securities firms. For example, foreign banks face significant impediments in the form of a variety of funding and lending limits tied to local branch (as opposed to global) capital, difficulties in obtaining approval for new financial products, and requirements to capitalize each sub-branch separately. Foreign securities firms must meet extremely high capital requirements and may not place orders for foreign securities on behalf of Korean clients.

Changes in regulations announced in June 1994 resulted in a streamlining of foreign investment applications procedures and the easing of a number of barriers to direct foreign investment. At the same time the government announced accelerated opening of several sectors that had previously been closed to foreign investors. Earlier changes to laws and regulations governing foreign purchases of land made it easier for foreign-invested companies to purchase land for staff housing and business purposes.

Despite these improvements, U.S. investment in Korea continue to face a number of significant barriers. Restrictions on access to offshore funding, including offshore borrowing, intracompany transfers, and intercompany loans are particularly burdensome for foreign-invested companies. Foreign equity participation requirements remain in some sectors, and licensing requirements, economic needs tests, and other regulatory restrictions limit foreign investment in sectors that are nominally open to foreign investors. Investment in most professional services remains restricted for foreign firms. Downstream services by foreign firms remain restricted. Retail distribution by foreign-invested firms, for example, is subject to limits on the number of outlets and floor spaces. These restrictions will not be lifted until 1996.

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. The government has encouraged regular "frugality campaigns" against "over-consumption" that hit consumer imports particularly hard. Domestic industry often puts pressure on the government to use its authority against foreign companies. In 1993, for example, foreign firms in the recently-liberalized cosmetics sector simultaneously underwent 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. Such reports continue to appear sporadically in the press, along with news that tax offices will audit individuals who travel excessively abroad or spend too much on "luxury goods," such as imported automobiles.

The streamlining of Korea's complex import clearance procedures is an important U.S. policy objective. Korea is now implementing PEI and DEC recommendations for improvement of customs and import clearance procedures. A new customs subgroup has been established to deal with the long-term implementation of improvements in the Korean import clearance system.

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. Korea 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 where counterfeit goods were prevalent. 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. The government has continued this campaign into late 1994, dedicating extra budgetary resources and sponsoring public awareness seminars.

As a result of this concentrated push, the U.S. government, in its 1993 and 1994 special 301 reviews, elected not to upgrade Korea to "priority foreign country" status, but kept it on the "priority watch list" with the possibility of further "out-of-cycle" reviews. 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.

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 Ko-

rean 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. In 1994, the government sponsored a series of public seminars on the importance of copyright protection for software, and the number of raids and arrests continued to rise.

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. If the Korean law becomes 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. The Korean government has been very responsive to U.S. government suggestions on how the law and its implementing regulations should be changed to make its compulsory licensing provisions acceptable to U.S. industry.

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. *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 represent-

ing 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 the limits placed on the freedom of association and other worker rights.

b. *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 publicly 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.

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, but, due to tight labor markets, most firms pay wages well above the minimum levels. The Labor Standards and Industrial Safety and Health Laws provide for a maximum 56-hour workweek, and a 24-hour rest period each week. Amendments to the Labor Standards Law passed in March 1989 brought the maximum regular workweek down to 44 hours, but such rules are sometimes ignored, especially by small firms.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		74
Total Manufacturing		1,236
Food & Kindred Products	268	
Chemicals and Allied Products	212	
Metals, Primary & Fabricated	50	
Machinery, except Electrical	39	
Electric & Electronic Equipment	186	
Transportation Equipment	59	
Other Manufacturing	422	
Wholesale Trade		245
Banking		1,231
Finance/Insurance/Real Estate		169
Services		24
Other Industries		23
TOTAL ALL INDUSTRIES		3,001

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

MALAYSIA

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1978 prices)	36,498	39,237	41,744
Real GDP Growth (pct.)	7.8	8.3	[2] 8.5
By Sector:			
Agriculture	6,052	6,241	6,235
Manufacturing	10,533	11,814	13,089
Mining/Petroleum	3,172	3,102	3,108
Utilities	757	849	942
Construction	1,418	1,569	1,723
Whole and Retail Trade	4,378	4,788	5,172
Financial Services	3,767	4,188	4,541
Government Services	3,712	3,869	3,967
Other Services	2,709	2,860	2,971
Net Exports of Goods & Services	−1,709	136	503
Real Per Cap GDP (1978 base)	1,962	2,065	2,197
Labor Force (000s)	7,370	7,627	7,846
Unemployment Rate (pct.)	3.7	3.0	2.9
Money and Prices:			
Money Supply (M2/pct.)	19.1	22.1	[3] 21.9
Base Interest Rate (pct.)	9.5	8.5	7.84
Gross Nat. Savings/GNP (pct.)	33.3	32.7	32.3
Inflation (CPI) (pct.)	4.7	3.6	3.8
Exchange Rate (avg USD/RM)	2.55	2.57	2.62
Balance of Payments and Trade:			
Merchandise Exports	39,573	46,057	[5] 55,194

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Exports to U.S. (FAS)	8,293	10,568	11,413
Merchandise Imports	36,200	42,869	[5] 52,950
Imports from U.S. (CV)	4,396	6,061	6,550
Aid from U.S.	1.5	0.3	0.3
Aid from Other Countries	N/A	N/A	N/A
External Debt	16,784	20,121	24,431
Public Sector	12,667	14,163	16,995
Private Sector	4,117	5,959	7,436
Debt Service Payments (paid) [4]	1,995	2,184	N/A
Official Net Reserves [5]	18,068	29,741	31,184
Merchandise Trade Balance	3,373	3,188	[5] 2,444
Trade Balance With U.S.	3,897	4,507	4,863

N/A—Not available.
[1] Malaysian Government estimates.
[2] Calculated in ringgit to avoid exchange rate changes.
[3] U.S. Embassy estimates.
[4] Excluding prepayments.
[5] 1994 data to August only.

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy and real GDP growth ranged between 6 percent and 8 percent from 1964–1984. 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. In 1985–1986, the collapse of commodity prices led to Malaysia's worst recession since independence, with real GDP growth a negative 1 percent and nominal GNP falling 11 percent. Since then, the economy has rebounded, led by strong growth in both foreign and domestic investment and exports of manufactures with real GDP growing at an average rate of over 8 percent. In 1994, real GDP growth is expected to reach 8.5 percent. Malaysia's 1995 Federal budget, tabled in Parliament October 28, 1994, introduced 2,600 tariff cuts and additional fiscal policy changes.

While the government plays a diminishing role as a producer of goods and services, it continues to hold equity stakes (generally minority shares) 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. However, government-owned entities are major players in some sectors, particularly plantations and financial institutions. Since 1986, the government has been privatizing many entities, including telecommunications, the national electricity company, the national airline and the government shipping firm. The government sold off its remaining shares in Malaysia Airlines Systems (MAS) in August 1994 and MAS is being reorganized to improve profitability. Seaports and government hospitals and pharmaceutical supply centers are in various stages of privatization.

Malaysia supports global trade liberalization measures and encourages direct foreign investment, particularly in export-oriented manufacturing and high technology products. It has been very active in the Uruguay Round negotiations and ratified the agreement on September 6, 1994. 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 follows 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 rate by two percentage points from 34 to 32 percent in the 1994 budget and reduced it by another two percentage points, to 30 percent, in the 1995 budget.

Monetary Policy: Malaysian monetary policy is aimed at controlling inflation 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

While the value of the Malaysian currency, the ringgit (RM), is considered to be market determined, the Malaysian government has intervened to offset significant upward pressure on the currency when such pressure was perceived as a sign of excessive foreign exchange speculation.

In late 1993, following a prolonged period of strong capital inflows (and upward pressure on the ringgit which was resisted), the government of Malaysia intervened aggressively in the market, bringing the value of the ringgit down nearly six percent against the U.S. dollar in just a few weeks.

By mid-January 1994, the policy of aggressive intervention was abandoned and the set of controls were soon abandoned as well, and the currency was allowed to gradually return to its early December 1993 value against the U.S. dollar. The current monetary authorities believe the controls introduced distortions that were not desirable in the longer term.

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 currency of Israel. No permission is required for payments in foreign currency up to RM10,000 (approximately $3,818). Individual foreign exchange transactions above RM10,000 required an exchange control license. For transactions up to RM10 million ($3.8 million), a license is issued by any commercial bank upon request without reference to the controller of foreign exchange (part of Bank Negara). An individual transaction in excess of RM10 million requires approval of the controller. Individuals and companies may now hold foreign currency accounts in resident commercial banks, but only the first tier banks can offer such accounts.

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. Citing concerns about inflation, it added 25 items temporarily to the price control list on October 16, 1994. Those price controls are slated to be lifted as of June 10, 1995. Overall tariffs average about 10 percent on a trade-weighted basis and import licenses are required for a small range of goods, e.g., poultry, tobacco and plastic resins. In the 1993 budget, the federal government lowered or eliminated tariffs on over 600 items in an attempt tc defuse domestic inflation, and took similar action for the same reason on over 50C items in the 1994 budget. On October 28, 1994 the government announced it woulc reduce import tariffs on another 2,600 items in the 1995 budget, largely to meet its commitments in the Uruguay Round and the Association of South East Asian Na tions (ASEAN) Free Trade Agreement (AFTA).

The agricultural sector, however, does contain some restrictive tariffs and non tariff barriers which distort trade. For example, the government fixes farm-gat prices for rice and tobacco at levels above world prices to encourage domestic pro duction and to boost depressed rural incomes. It also sets the selling price for ric below the farm-gate price, but still above market levels. Despite this price incentive local rice production does not meet demand and the government imports large quan tities of rice. It uses profits from sales of cheaper imported rice to offset the sub sidies for rice producers. In the case of tobacco, the government presses cigarett manufacturers to use a high proportion of locally grown tobacco. Imports of tobacc are restrained by high import duties and controlled through import licenses.

Tax Policies: Income taxes, both corporate and individual, are the largest singl source of revenue for the government, accounting for about 40 percent of goverr ment revenue. Indirect taxes, comprising export and import duties, excise taxe: sales taxes, service taxes and other taxes account for about 35 percent of goverr ment revenue. The remainder of government revenue comes largely from profits (state-owned enterprises and petroleum taxes. In 1994, the government reduced th income tax rate on petroleum companies from 45 to 40 percent, and lowered the e: port tax on crude oil from 25 to 20 percent. Sales taxes on imported food produc' are uniformly collected at the port of entry while competing domestic goods can e cape the equivalent tax rates. However, the government has stepped up efforts fine domestic manufacturers that evade sales taxes.

Regulatory Policies: The Government encourages foreign and local private inves ment. Currently, a foreign investor can hold 100 percent of the equity in a Mala sian subsidiary if it exports at least half of its output, has at least 50 percent valu added domestically (or, failing that, has RM50 million—about $19 million—in fc eign-funded assets), and does not produce items that compete with those now bei 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. However, some existing firms have been allowed to retain their equity positions, including 100 percent foreign ownership.

4. Debt Management Policies

Malaysia has strong credit ratings in international financial markets and its public and private companies have no difficulty accessing funds. Malaysia's medium and long-term foreign debt is expected to stand at $24.0 billion at the end of 1994, about 20 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.7 percent in 1993.

5. Significant Barriers To U.S. Exports

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 RM50 ($20) per kilogram, plus five percent ad valorem. While this policy reduces leaf imports, the greatest impact appears to affect 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 domestic tobacco. In 1992, the government first proposed an import quota for flue-cured tobacco. Although, Malaysia manages the quota rather liberally, cigarette manufacturers are forced to buy up all the locally produced tobacco which is generally considered to be very low quality. Cigarettes are taxed at a rate of RM162 ($64.8) per kilogram.

Duties On High Value Food Products: Duties for processed and high value products, such as canned fruit, snack-foods, and many other processed foods, range between 20 and 30 percent. In the 1994 budget, import duties on most fresh fruit and food items were reduced to between 10 and 30 percent. The abolition or reduction in duties for numerous other food products announced in the 1995 budget should have a positive impact on imports of items such as tree nuts, citrus fruit, dairy, livestock and poultry products.

Plastic Resins: In December 1993, tariffs were increased for a five year period from 2 to 30 percent (for non-ASEAN countries) and from 1 to 15 percent (for ASEAN countries) on plastic resins. In 1994, when tariff protection alone did not provide the amount of protection desired, the government instituted a licensing system for plastic resins to give protection to the domestic industry for a five year period. U.S. firms utilizing resins in their manufacturing process have complained the system limits their ability to source the products they want and has resulted in significant price hikes. U.S. manufacturers of resins say their ability to sell to Malaysia has been sharply curbed. The government says it has implemented a transparent form of protection for a specific period of time and will review the situation regularly.

Protective Tariffs for Kraftpaper: In April 1994 the government raised tariffs on imported kraftpaper (used in making cardboard boxes) to between 20 and 30 percent, depending on the category. These tariff increases are to be phased out over a maximum of five years and are subject to review every two years. Following this action local manufacturers have raised prices three times, affecting U.S. firms using cardboard boxes for packing their export products. U.S. suppliers of kraftpaper to Malaysia have complained that they are losing sales.

High Import Duties On Alcoholic Beverages: For the first time in many years the tariffs on all alcoholic beverages remain unchanged in both the 1994 and 1995 budgets. Duties of wine and beer remain at RM228 ($91.2) per decaliter and RM74 ($29.6) per decaliter respectively.

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. Although import licenses are still required, import duties for poultry and poultry products were abolished in the 1995 budget and Malaysia has committed to opening its market to a modest import quota under the Uruguay Round of the GATT.

Rice Import Policy: Because subsidized local production satisfies only part of domestic demand, the National Rice Authority (Lembaga Padi Negara or LPN), as the sole legal importer, brings in substantial quantities of rice. Purchases generally are made on a government-to-government basis, which 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 nontariff barriers.

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

Financial Services: Banking, insurance and stockbroking are all subject to government regulation which limits foreign participation. No new banking licenses are being granted for either local or foreign corporations in the onshore market. Foreign-controlled companies are required to obtain 60 percent of their local credit from local banks. Under the terms of the 1987 Banking and Finance Act, all foreign-controlled banks were required to convert their Malaysian branch offices to locally incorporated subsidiaries by September 31, 1994. Foreign shareholdings in insurance companies are limited to 30 percent without government approval. However, there are ten insurance companies which are 100 percent foreign owned (one U.S.) and another eight have foreign equity in excess of 50 percent. Foreigners may hold in aggregate up to 49 percent of the equity in a stockbroking firm. Currently there are 11 stockbroking firms which have foreign ownership and 20 representative offices of foreign brokerage firms.

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

Government Procurement: Malaysian government policy requires countertrade provisions on government tenders above RM1 million. Below RM1 million, countertrade is welcomed and even encouraged, but not required. (Most government tenders require that countertrade be offered as an alternative.) Incentives exist for local procurement. Many smaller civil construction projects (RM50 million or less) are restricted to local firms.

6. Export Subsidy Policies

Malaysia offers several export allowances. 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 for both post-shipment and pre-shipment credit.

Malaysia also provides tax incentives to exporters, including double deduction of expenses for: overseas advertising and travel; supply of free samples abroad; promotion of exports; maintaining sales office overseas; and export market research.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO) and, as of October 1, 1990, the Berne Convention for the protection of literary and artistic works, and the Paris Convention.

The Trade Description Act of 1976, the Patent Act of 1983, the Copyright Act of 1987, and the Copyright (Amendment) Act of 1990 have greatly strengthened protection for intellectual property in Malaysia. Under the Copyright (Amendment) Act of 1990, and the accompanying accession to the Berne Convention, Malaysia now provides copyright protection to all works (inter alia video tapes, audio material, and computer software) published in countries that are members of the Berne Convention regardless of when the works are first published in Malaysia. Police and legal authorities have been responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases, though illegal videotapes continue to be widely available.

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 appear 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 has not been a problem in Malaysia for U.S. companies. Patent protection is also good.

8. Worker Rights

a. *The Right to Organize and Bargain Collectively.*—Unions may organize workplaces, bargain collectively with an employer, form federations, and join international organizations. There were 519 unions registered in Malaysia as of June 30, 1994, of which 60 percent are enterprise-level unions, and twelve percent of the work force are members of trade unions. 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." A trade union for which registration has been refused, withdrawn or cancelled is considered an unlawful association. Strikes are legal and relatively few (18 strikes in 1993). Government policy limits the formation of unions in the electronics sector to in-house unions.

Collective bargaining is the norm in Malaysian industries where workers are organized. Malaysia's system of conciliation and arbitration seeks to promote negotiation and settlement of issues without industrial action. Malaysian law, especially the Industrial Relations Act, effectively restricts collective bargaining rights through compulsory arbitration. There are 1,600 collective bargaining agreements and 90 percent of approximately 550 trade disputes referred to the Industrial Court are settled annually. Through legislative amendment, the government is eliminating an exemption for firms granted "pioneer" status which protected them from union demands for terms of employment exceeding those specified in the Employment Act of 1955.

b. *Prohibition of Forced or Compulsory Labor.*—There is no evidence that forced or compulsory labor occurs in Malaysia, for either Malaysian or foreign workers. In theory, certain Malaysian laws, which date to pre-independence, allow the use of imprisonment with compulsory labor as a punishment for persons expressing views opposed to the established order or who participate in strikes. The government maintains that the constitutional prohibition on forced or compulsory labor renders these laws without effect.

c. *Minimum Age of 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. The Ministry of Human Resources maintains a staff to enforce regulations prohibiting children from working more than 6 hours per day, more than 6 days per week, or at night. However, according to non-governmental organizations, there may be as many as 75,000 children between the ages of 10–14 working full-time, mostly on plantations.

d. *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. The new Occupational Safety and Health Act was promulgated in February 1994 and covers all sectors of the economy except the maritime sector and the military. Other laws provide for retirement programs and disability and workman's compensation benefits. No comprehensive national minimum wage legislation exists, but certain classes of workers are covered by minimum wage laws. Plantation and construction work is increasingly being done by contract foreign workers. Working conditions for contract workers often are significantly below those of direct hire workers. In addition, many of the immigrant workers, particularly illegal ones, may not have access to Malaysia's system of labor adjudication. The government has implemented programs to provide plantations with legal foreign workers, largely to prevent the exploitation of illegal workers.

e. *Rights in Sectors with U.S. Investment.*—The largest U.S. investment in Malaysia is in the petroleum sector. One U.S. company has two subsidiaries operating in Malaysia. One subsidiary, which is 100 percent owned by its U.S. parent, handles offshore oil and gas production. The other subsidiary, which is 65 percent owned by the U.S. parent 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 employees, however, have broken away from the NUPCIW and formed a separate in-house union. Pay and benefits at both companies are considered excellent.

The second largest concentration of U.S. 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. Twenty U.S. electronic components manufacturers operate 25 plants in Malaysia, employing more than 52,000 Malaysian workers.

Although there is no legal prohibition against organizing unions in the electronics industry, government policy effectively discouraged any unionization in this sector until 1988. 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. The Government registered several company (or enterprise-level) unions in the electronics sector during the late 1980s and early 1990s. At present, workers at seven electronics companies are represented by enterprise-level unions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		303
Total Manufacturing		1,079
Food & Kindred Products	(1)	
Chemicals and Allied Products	49	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	858	
Transportation Equipment	0	
Other Manufacturing	149	
Wholesale Trade		92
Banking		96
Finance/Insurance/Real Estate		332
Services		2
Other Industries		25
TOTAL ALL INDUSTRIES		1,928

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

NEW ZEALAND

Key Econcmic Indicators

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

	1992	1993	1994
Income, Production and Employment: [1]			
Real GDP (1983 prices)	19,883	19,256	21,078
Real GDP Growth Rate (pct.)	−1.3	2.9	5.3
GDP (at current prices)	41,290	40,742	45,157
By Sector:			
Agriculture	2,524	2,525	2,668
Fishing/Hunting/Forestry/Mining	1,712	1,763	2,708
Manufacturing	7,426	7,878	8,919
Electricity/Gas Water	1,204	1,074	1,315
Construction	1,212	1,166	1,580

Key Economic Indicators—Continued

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

	1992	1993	1994
Trade/Restaurants/Hotels	5,977	6,182	6,617
Owner-Occupied Dwellings	3,297	3,170	3,419
Transport/Storage	2,072	1,891	1,785
Finance/Insurance/Business Svcs	5,895	6,032	6,399
Communications/Other Services	3,481	3,482	3,762
General Government Services	4,978	4,565	4,804
Net Exports of Goods and Services	1,312	1,059	1,339
Real Per Capita GDP (USD)	5,821	5,578	6,038
Labor Force, June (000s)	1,634	1,648	1,685
Unemployment Rate, June (pct.)	10.1	9.9	8.4
Money and Prices (annual percentage growth): [1]			
Money Supply (M2 July/July)	−1.7	−0.9	12.7
Base Lending Rate (actual Sept)	11.0	9.8	10.1
Personal Saving Ratio [2]	6.2	7.0	7.7
Consumer Price Index	0.8	1.0	1.3
Producer Price Index (June-June)	1.9	2.5	1.5
Exchange Rate (USD/NZD)	0.5660	0.5324	0.5532
Balance of Payments and Trade:	3/		
Total Exports (FOB) [4]	9,899	10,103	11,162
Exports to U.S.	1,272	1,202	1,256
Total Imports (CIF) [4]	8,591	9,230	10,407
Imports from U.S.	1,558	1,704	1,872
Aid Receipts	0	0	0
External Public Debt	15,163	14,202	16,022
Debt Service Ratio (March yr.) [5]	57.4	47.0	43.4
Gold and Annual Debt Service	2,983	3,337	4,011
Trade Balance	1,308	873	755
Trade Balance with U.S.	−286	−502	−616

[1] National income accounts reporting years ending March 31.
[2] Estimates by N.Z. Institute of Economic Research.
[3] Fiscal year ending June 30. 1994 data is provisional.
[4] Merchandise Trade.
[5] Principal payments on medium and long term debt plus interest payments on total debt, as a percent of exports of goods and services and investment income.

1. General Policy Framework

New Zealand is a modern developed economy, with a heavy reliance on foreign trade. Its manufacturing and export sectors are still significantly based on a large and efficient agricultural sector. Tourism has become the single most important foreign exchange earner, surpassing meat exports. Since agricultural and processed agricultural product exports are so important to the economy, New Zealand ratified the GATT Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995. After several years of economic restructuring, the New Zealand economy is now largely market driven. Most formerly government-owned industries have been privatized, with electric power generation and transmission the primary remaining government-owned industries. In late 1994 economic growth was strong, inflation was under control, unemployment was falling, and the government was running budget surpluses for the first time in seventeen years.

While the New Zealand government is no longer running deficits, it refinances its maturing debt (including substitution of domestic for foreign debt) and manages its cash flow through periodic issuance of government stock and treasury bills, which are held by both domestic and foreign investors. The government obtains most of its income from direct taxes (about US $11.8 billion) on company profits and personal incomes. The maximum personal income tax rate is 33 percent. The second largest revenue earner is a "goods and services" (GST) tax of 12.5 percent on all sales of goods and services. This appears as a sales tax to the consumer.

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), with certain factors from this "headline" inflation removed to arrive at "underlying" inflation. These factors include interest rate rises, government taxes and charges, and one-off external shocks, such as large oil price increases. While the CPI increase has remained below two percent per annum since late 1991, it is expected to exceed that level by late 1994, and peak at about three percent in early 1995. Underlying inflation is expected to remain below the two percent 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.

2. Exchange Rate Policy

The New Zealand dollar has floated since 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 1994, the New Zealand dollar, at about 61 U.S. cents, had reached its highest point against the U.S. dollar since late 1990, having appreciated by almost 20 percent against the U.S. dollar since late 1992. At these levels, 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

Certain New Zealand manufacturers, primarily motor vehicle assemblers and car tire, textile, carpet, footwear and apparel manufacturers, retain high but decreasing effective rates of tariff protection. In March 1991, a program was announced to cut most tariffs by one-third from 1993 to 1996. Liberalization beyond 1996 will be determined by a review held in 1994. Most observers expect further gradual reduction in tariff protection for these industries, in spite of stiff opposition from those directly affected.

In December 1990, the new National Party government introduced industrial relations reform legislation, resulting in the Employment Contracts Act, which came into effect on May 15, 1991. This law abolished compulsory unions and the practice of nationwide occupational awards. The removal of these restrictive practices has generated more flexible workplace arrangements with consequent improvements in productivity.

The National Party government also implemented 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 housing assistance. 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

Gross public debt grew from 45 percent of GDP in 1973 to a peak of 77 percent of GDP in 1987. In June 1994, total public debt was US $27.2 billion, equivalent to 57 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 US $3.3 billion, or 8.4 percent of GDP and 20 percent of government expenditure. Public debt service dropped to US $1.97 billion in FY1994, or 4.4 percent of GDP and 12.1 percent of expenditures.

External debt accounted for 59 percent of the total in mid-1994. Interest on external debt in 1994 equaled 12.4 percent of exports of goods and services, and investment income.

5. Significant Barriers to U.S. Exports

New Zealand embarked on a unilateral tariff liberalization program in 1985 with the 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 in-

dustry 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.

Under separate treatment for goods covered by the former industry plans, present relatively high tariffs for apparel, textiles, curtains, carpets, footwear, motor vehicles and car tires will be reduced in stages to July 1996 by about one quarter to one third of the existing tariffs. However, even after July 1996, passenger vehicles and original equipment tires will still face a tariff of 25 percent; replacement tires, 15 percent; and apparel, 30 percent. A review for the post–1996 period was conducted in 1994. Most observers expect further gradual reduction in tariff protection for these industries, despite stiff opposition from some domestic producers.

One example of a protected industry is the car assembly sector, where tariff protection will drop from the present 30 to 25 percent on July 1, 1996. The assemblers maintain that further tariff reductions will jeopardize their ability to maintain an employment level of 2,500, and kill a potential export market to Australia. Their opponents (importers of used cars, mostly from Japan) counter that the present duties make cars an average of US $3000 more expensive for every New Zealand motorist.

Thus, despite extensive reform, tariffs on goods competing with domestic products remain relatively high. With the entry into force of the GATT Uruguay Round Agreement in 1995, tariffs on only two categories of imports, used motor cars and used clothing, will be unbound. Items of particular export interest to the United States subject to high tariffs include printed matter for commercial use, aluminum products and wine. Reductions in tariff levels in accordance with the aforementioned plan should result in expanded commercial opportunities for U.S. exporters.

New Zealand has completed the dismantling of a highly restrictive import licensing regime. The remaining import license controls for goods under the former industry plans were eliminated in 1992. This liberalization has benefitted U.S. exporters.

The New Zealand Apple and Pear Marketing Board, a producer organization, had a monopoly right to import apples and pears, except from Australia. This monopoly was abolished effective 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 and rail ferry service connecting the two main islands, was sold to a majority U.S. owned consortium in 1993. In 1991, the former government telecommunications monopoly was sold to two U.S. telecommunications companies. 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, and the Berne Copyright and Universal Copyright Conventions. New Zealand has generally supported measures to enhance intellectual property protection at multilateral organization meetings.

The Government of New Zealand strongly endorses the protection of intellectual property and enforces effectively 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 no licenses had ever been issued under these provisions, 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. It is expected that major new copyright legislation, including provisions on parallel importing, will be enacted in 1994, as well as new legislation on layout designs. In addition, some amendments to patent and trademark laws, as required by the Uruguay Round's Trade Related Aspects of Intellectual Property (TRIPS) Agreement, were before the parliament in late 1994, as well as a new regime for the protection of geographical indications, expected to be enacted in 1994. Draft legislation will also protect certain data which are supplied to New Zealand regulatory authorities who give marketing approvals for pharmaceuticals and agrochemicals. These reforms are mainly aimed at bringing New Zealand's intellectual property rights law into conformity with the TRIPS Agreement. It is expected that further reform legislation will be introduced in 1995 on trademarks, patents, designs and plant variety rights.

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 these organizations with other unions and international organizations. The principal labor organization, the New Zealand Council of Trade Unions (NZCTU), is affiliated with the International Confederation of Free Trade Unions (ICFTU). A second, smaller national labor federation, the New Zealand Trade Union Federation (TUF), was established in 1993. TUF is not affiliated with any global international, although some of its affiliates retain longstanding ties with the ICFTU's international trade secretariats. There are also a number of independent labor unions. Unions are protected by law from governmental interference, suspension, and dissolution.

Unions have and freely exercise the right to strike. Strikes designed to force an employer to become party to a multi-company contract are prohibited. Moreover, police officers are barred from striking or taking any form of industrial action. Police, however, do have freedom of association and the right to organize and to bargain collectively.

b. *The Right to Organize and Bargain Collectively.*—The right of workers to organize and bargain collectively is provided by law and observed in practice. Unions actively recruit members and engage in collective bargaining. Only uniformed members of the armed forces are not permitted to organize unions or to bargain collectively.

Labor market deregulation intended to make New Zealand more competitive internationally was initiated with the Employment Contracts Act (ECA) of 1991, which marked a sharp break with almost a century of pro-union industrial legislation. Under the ECA, unions lost their special legal status and have no inherent right to represent any particular group of workers. Compulsory unions and the closed shop were abolished. Monopoly union coverage was dropped and workers may not be forced to join a particular union.

The ECA ended a previous system of national "awards" under which a wage agreement would apply to all employers and employees in an industry whether or not they had been involved in the award negotiations. Under the ECA, employment relationships are based on contracts. Individual employees and employers may choose to conduct negotiations for employment contracts on their own behalf or may authorize any other person or organization to do so as their representative. Mediation and arbitration procedures are conducted independently of government con-

trol. The Employment Court hears cases arising from disputes over the interpretation of labor laws. 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.*—Forced or compulsory labor is prohibited. Inspection and legal penalties ensure respect for these provisions.

d. *Minimum Age for Employment of Children.*—Department of Labour inspectors effectively enforce a ban on the employment of children under age 15 in manufacturing, mining, and forestry. Children under the age of 16 may not work between the hours of 10 P.M. and 6 A.M. In addition to explicit restrictions on the employment of children, New Zealand's system of compulsory education ensures that children under the minimum age for leaving school (now 16) are not employed during school hours.

e. *Acceptable Conditions of Work.*—New Zealand law provides for a 40-hour workweek, with a minimum of three weeks' annual paid vacation and eleven paid public holidays. Under the Employment Contracts Act, however, employers and employees may agree to longer hours than the 40-hour per week standard. The government-mandated minimum wage of approximately US $3.75 an hour, applies to workers 20 years of age and older. Effective April 1, 1994, a minimum wage for younger workers was introduced at 60 percent of the adult minimum. 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, notably the Health and Safety in Employment Act of 1992. Under this legislation, employers are obliged to provide a safe and healthy work environment and employees are responsible for their own safety and health as well as 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		339
Total Manufacturing		778
Food & Kindred Products	(1)	
Chemicals and Allied Products	110	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	3	
Electric & Electronic Equipment	38	
Transportation Equipment	(1)	
Other Manufacturing	317	
Wholesale Trade		108
Banking		(1)
Finance/Insurance/Real Estate		198
Services		(1)
Other Industries		1,587
TOTAL ALL INDUSTRIES		3,037

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

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

PHILIPPINES

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1985 prices)	38,632	39,393	41,047
Real GDP Growth (pct.)	0.3	2.0	4.2
GDP (current prices)	52,982	54,068	62,364
By Sector: (current prices)			
Agriculture	11,561	11,723	13,533
Energy/Water	1,284	1,343	1,497
Manufacturing	12,812	12,891	15,092
Construction	2,664	2,952	3,368
Dwellings/Real Estate	3,380	3,633	4,054
Financial Services	2,084	2,159	2,495
Other Services	18,559	18,755	23,979
Government Services	3,670	3,491	3,804
Health/Education (private)	1,169	1,329	1,534
Net Exports of Goods & Services	−2,403	−4,612	−5,301
Real Per Capita GDP (1985 prices)	595	592	602
Labor Force (000s)	26,290	26,884	27,600
Unemployment Rate (pct.)	9.8	9.2	9.0
Money and Prices (annual percentage growth):			
Money Supply (M2) [2]	11.0	24.5	19.0
Weighted Ave. Loan Rate [3]	19.4	14.6	15.0
Weighted Ave. Savings Rate [3]	0.6	8.3	8.5
Retail Price Index (Manila)	5.1	2.0	7.8
Wholesale Price Index (Manila)	4.5	−1.2	8.5
Consumer Price Index (Phil.)	8.9	7.6	9.9
Exchange Rate (Pesos/USD)			
Official (interbank rate)	25.51	27.12	26.95
Parallel (and buying rate)	25.40	27.07	26.90
Balance of Payments and Trade:			
Merchandise Exports (FOB)	9,824	11,375	13,050
Exports to U.S. (Phil. data)	3,832	4,371	4,950
Merchandise Imports (FOB)	14,519	17,597	20,600
Imports from U.S. (Phil. data)	2,620	3,522	4,100
Bilateral Aid, U.S. [4]	322	160	179
Bilateral Aid, Others	1,312	1,727	1,530
External Public Debt	30,934	34,282	36,300
Debt Service Payments (paid)	3,137	3,533	4,270
Gold and Annual Debt Service	5,218	5,801	7,250
Trade Balance	−4,695	−6,222	−7,550
Trade Balance with U.S.	1,212	849	850

[1] 1994 figures are estimates based on partial data available as of October 1994.
[2] Growth rate of year-end M2 levels.
[3] Actual ave. annual interest rates, not changes in them.
[4] Inflows of bilateral official loans and grants per balance of payments. Figures for U.S. are net of inflows from the U.S. Veterans Administration (USVA).
Sources: National Economic and Development Authority, Bangko Sentral ng Pilipinas, Department of Finance.

1. General Policy Framework

The Philippines is an archipelago of over 7,000 islands with an estimated population of 68 million. Poverty remains a major concern, with nearly 40 percent of Filipino families estimated to be living below the poverty threshold. Agriculture contributes about 23 percent of Gross Domestic Product (GDP)—less than industry (33 percent) and services (44 percent)—but absorbs the bulk (45 percent) of the employed. The country also has had to grapple with a boom and bust economic growth pattern, with high growth periods subsequently slowed by the emergence of macroeconomic

imbalances. For the past decade and more, low savings, investments and exports have contrasted with the performance of Asia's economic dragons. In the past year, however, a more soundly based economic rebound has begun to emerge.

The Ramos Administration, inaugurated in 1992, has continued and expanded the reforms initiated by its predecessor: liberalizing the trade, foreign exchange and investment regimes; privatizing parastatals; reducing entry barriers in vital industries (most recently in banking, telecommunications, and insurance); and encouraging private sector investments in much needed infrastructure. Real GNP, which grew 5.1 percent during the first half of 1994, reflects this rebound from a combination of exogenous shocks, political disturbances, macroeconomic imbalances and crippling power shortages which kept average real GNP expansion at 2.2 percent from 1990 to 1993, slower than the rate of population growth. Although some political and social resistance remain, there is a growing realization among government officials, private sector leaders and legislators that the liberalization process must continue for the economy to sustain its recent strong recovery. Many question marks remain, but optimism is growing that the Philippines may, at last, be embarking on a path of sustained strong growth.

The Philippines is a member of the GATT, participated actively in the Uruguay Round (UR), and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

The government is working to achieve fiscal balance and discipline as part of an overall program to improve and sustain macroeconomic stability. The fiscal deficit has been reduced by a combination of new taxes and spending cuts. In 1995, the government hopes to achieve its first fiscal surplus in over two decades. Debt service's share of the budget pie has declined in recent years from almost half to under a third today. The government has had some success with the issuance of three-year floating rate treasury notes, but short-term debt still makes up nearly 70 percent of outstanding government securities.

In 1993, the government financially restructured the Central Bank. Previously, the instruments available for monetary management were severely limited by the Central Bank's mounting financial losses, compelling monetary authorities to keep reserve requirements at high levels. Now armed with a clean balance sheet and a 220 billion peso portfolio of new treasury securities, the "new" Central Bank (officially known as the "Bangko Sentral ng Pilipinas") is in a position to undertake open market operations effectively. Since the 1993 restructuring, the Bangko Sentral has lowered bank reserve requirements by six percentage points, from 25 to 19 percent.

2. Exchange Rate Policy

Except for a few remaining restrictions on foreign investments and on foreign debt, most foreign exchange restrictions were liberalized starting 1992. The foreign exchange rate is now set freely in the interbank market.

The new regulations now allow immediate repatriation and remittance privileges without requiring Bangko Sentral approval. Foreign exchange earners are 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. To further liberalize the foreign exchange system and encourage greater competition, the government reintroduced off-floor forex trading in April 1992 using a computerized dealing system. However, the Bangko Sentral imposes ceilings on individual banks' foreign exchange positions, requiring excess forex holdings to be sold to the Bangko Sentral or to other banks. Investment abroad by Philippine residents using foreign exchange purchased from the banking system is limited to $3 million per investor per year.

3. Structural Policies

Prices of goods and services are generally determined by internal market forces, with the exception of fuel and basic public utilities such as transport, water and electricity. The government grants certain incentives (such as tax holidays and/or tax and duty-free privileges on inputs and capital equipment) to investors in government-preferred activities. While there are exceptions, private and government-owned firms generally compete on equal terms. An ongoing privatization program is markedly reducing the government's role in many sectors.

The Foreign Investments Act of 1991 allows full foreign ownership of companies engaged in activities not covered by investment incentives. Previous regulations used to limit foreign ownership in Philippine companies generally to 40 percent. A much reduced "negative list" of sectors where foreign ownership is either banned or limited remains. (See Section 5)

Trade liberalization and tariff reform programs continue. The major exception is in agriculture, where 70 percent, by value, of major production remains protected from import competition. Recent reforms have improved access to important service industries, most recently in telecommunications, banking and insurance. In May 1994, the government improved its build-operate-transfer (BOT) law, first launched in 1990, by expanding the number of BOT variations, simplifying rules and regulations, and allowing more flexibility in pricing.

Over the last two years, the government adopted a number of tax measures to beef up revenues. It increased stock transaction and documentary stamp taxes, restructured cigarette taxes, imposed a minimum three percent tariff, and increased various government fees and charges. In May 1994, legislation expanding the value added tax base (VAT) was signed into law, extending the VAT to goods and services such as telecommunications, lease and sale of real property, restaurants/caterers/hotels, books, imported meat and, eventually, to professional and financial services. (Note: The constitutionality of the expanded VAT has been challenged in the courts and implementation remains suspended by a Supreme Court temporary restraining order.)

4. Debt Management Policies

The Ramos Administration has continued the firm commitment to servicing the country's foreign obligations despite occasional congressional and other political rhetoric calling for debt repudiation and/or debt service caps. Between 1990 and 1992, the government repurchased $2.5 billion in obligations owed foreign commercial banks and converted $3.2 billion dollars of eligible debt to long term bonds. These efforts enabled the Philippines to re-enter the voluntary international capital markets in 1993 after a decade's absence, issuing about $900 million dollars in Eurobonds.

The International Monetary Fund (IMF) approved a three-year extended arrangement in mid-1994, which the Philippines envisions as an exit arrangement. The agreement paved the way for the fifth Paris Club debt rescheduling round, which was limited to debt not previously rescheduled. However, due to upward pressure on the peso caused by a strong inflow of foreign exchange, the Philippines decided not to pursue the Paris Club agreement, but to make payments on schedule. The Philippines continues to benefit from various sector-specific assistance and structural adjustment programs provided by multilateral institutions such as the Asian Development Bank and the World Bank Group.

The growth of the Philippines' foreign debt has slowed markedly since the mid-1980s, and foreign debt servicing is no longer a severe problem. As of March 1994, the debt was $35.3 billion, or 50 to 55 percent of gross national product. The ratio of debt service to export receipts is now below 20 percent, from nearly 40 percent in the early 1980s.

5. Significant Barriers to U.S. Exports

Tariffs: Independent of the Uruguay Round, in 1991, the Philippines began programs to reduce, modify and simplify tariffs into four tiers of 3, 10, 20 and 30 percent. With its scheduled completion in November 1994 of the current tariff reform program (Executive Order 204), the Philippines' nominal tariff will average 20 percent. The government is already actively considering further comprehensive tariff reductions stretching to the end of the decade. The Philippines also agreed to eliminate quantitative restrictions on agricultural imports but will be implementing compensating tariffs (at an estimated 100 percent level), applicable except for minimum access quotas, which will continue to protect much of that sector.

Effective May 1, 1994, a minimum three percent tariff was established for all imports. While only 50 tariff lines had been duty free, 2.5 percent of 1993 imports from the U.S., worth $88.5 million, were in those categories. Electrical generating sets, which made up 67 percent ($59.4 million) of duty-free imports from the U.S. in 1993, will be subject to a 10 percent tariff beginning July 1, 1995.

As part of a structural reform program intended to spur investments in export industries, Executive Order 189 which took effect August 22, 1994, lowered tariffs on capital equipment, components and parts to a range of 3 to 10 percent. Equipment covered are used in various sectors including garments and fashion accessories, electronics, pulp and paper, sporting goods and processed foods.

To boost the competitiveness of the domestic textile milling and garments industry, Executive Order 204 will lower import duties on 790 tariff lines including chemical inputs to textile manufacturing, textile material inputs and garments, effective November 17, 1994.

About 208 "strategic" products will remain subject to 50 percent tariff and in some cases quantitative restrictions. This group, which includes rice, sugar, fruits, coco-

nut oil, and luxury goods such as liquor, tobacco, candy and leather goods, represents about 3.5 percent of tariff lines.

Imports of U.S. agricultural products have also been constrained by the "Magna Carta of Small Farmers" which allowed the Agriculture Department to ban import of goods produced in "sufficient quantity" locally. The government has acknowledged this is in conflict with the implementation of the UR Agreement/WTO and is making plans for necessary changes.

Of particular interest to the U.S. is that the sale of domestically produced meat is exempt from the expanded VAT while imported beef (high-grade or manufacturing grade cut) is subject to the tax. The Finance Secretary has acknowledged this too may contravene a GATT provision, and has indicated a change will be made in accordance with the Agreement.

Import Licenses: Prior clearance is still required for more than 100 restricted and controlled items (mostly agricultural and industrial commodities) generally for reasons of health, safety or national security. The National Food Authority remains the sole importer of rice. A Board of Investment (BOI) "authority to import" is required for commercial vehicles and parts covered by its Progressive Industrial Development Program. A Garment and Textile Export Board (GTEB) "authority to import" is required for imports of pre-cut fabrics and accessories for processing into finished garments and textile products for export.

Commodity imports financed with foreign credits still require prior approval from the Bangko Sentral ng Pilipinas (BSP). The Philippines is a signatory to the GATT Import Licensing Code.

Services Barriers: Banking–A new law, signed in May 1994, will relax restrictions in place since 1948. A foreign investor can enter either on a wholly owned branch basis or own up to 60 percent of an existing domestic bank or new locally incorporated banking subsidiary. However, only six foreign banks (plus four more with presidential discretion) will be allowed entry on a full service, branch basis.

Securities–Membership in the Philippine stock exchange is open to any company (foreign or Filipino) incorporated in the Philippines. A foreign investor wishing to purchase shares of stock is subject to foreign ownership limitations specified by the constitution and other laws. Foreign ownership in securities underwriting companies is limited to a minority. Foreign firms are not allowed to underwrite securities for the Philippine market, except under the provisions of the new Banking Law, (which allows foreign bank branches to operate as universal banks). Foreign firms may underwrite Philippine issues for foreign markets.

Insurance and Travel Agencies–For at least two years effective October 24, 1994, these sectors were opened to full foreign ownership (See Section 5–Investment Barriers). However, the implementing rules and regulations have not yet been made public, so the conditions on market entry are not yet known.

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

Standards, Testing, Labelling, and Certification: The Philippine government, for reasons of public health, safety and national security, implements regulations that affect U.S. exports of drugs, food, textiles and certain industrial goods. Notable examples follow:

(a) The Department of Health's (DOH) renewed campaign for the full implementation of the "Generic Act" of 1988 focuses on the vigorous promotion of cheap generic drugs. The generic name must appear above a drug's brand name.

(b) Imports of high-grade beef, fresh fruits, vegetables and seeds are controlled through phytosanitary certification which is often costly.

(c) Labeling is mandatory for textile fabrics, ready-made garments, household and institutional linens and garment accessories.

(d) Local inspection for standards compliance is required for imports of about 30 specific industrial products, including lighting fixtures, electrical wires and cables, sanitary wares and household appliances, portland cement and pneumatic tires. For other goods, however, U.S. manufacturers' self-certification of conformance is accepted. The Philippines is a signatory to the GATT Standards Code.

Investment Barriers: A more liberal foreign investment law (the Foreign Investment Act of 1991, or FIA) for activities not eligible or not seeking investment incentives allows foreign equity beyond the 40 percent ceiling imposed by previous investment regulations. However, there are important exceptions, one being that foreigners are not allowed to own land except in partnership with Filipinos (in which case the foreign investor's share is limited to 40 percent). The FIA also contains a foreign investment "negative list" with these categories:

A) List A specifies activities in which foreign participation is either excluded or limited by the Constitution and other statutes. Investments in mass media, the

practice of licensed professions (including legal services), retail trade, cooperatives, small scale mining and private security agencies are exclusively for Filipinos. Varying foreign ownership ceilings are imposed on companies engaged in, among others, advertising, employee recruitment, construction, financing, and the exploration and development of natural resources.

B) List B limits foreign ownership (generally to 40 percent) for reasons of public health, safety and morals, and to protect local small and medium-sized firms. To protect small domestic enterprises, non-export firms must be capitalized at a minimum of $500,000 to exceed the 40 percent foreign ownership requirement.

C) List C limits foreign ownership in activities "adequately served" by existing Philippine enterprises.

Until October 23, 1994, the FIA was guided by a three-year "transitory" foreign investment negative list. The government released the first "regular" negative list in June 1994, which took effect on October 24, 1994. Activities included under lists A and B were unchanged. Effective October 24, List C was "empty," opening activities and services such as insurance, travel agencies, tourist lodging establishments, conference/convention organizers, and import and wholesale activities not integrated with production to full foreign ownership. An "empty" list C also gives existing foreign licensors in the Philippine market the option to establish their own majority-owned subsidiaries. In 1996, sectors can petition for inclusion in negative list C under a process which includes public hearings.

The government imposes a foreign ownership ceiling of 40 percent for firms seeking incentives with the Board of Investment (BOI) under the government's annual Investment Priorities Plan (IPP). While this ceiling may be exceeded in certain cases—i.e., the activity is defined as "pioneer," or least 70 percent of production is for export, or the enterprise locates in an area classified as "less developed"—divestment to the 40 percent foreign ownership ceiling is required within 30 years. Industry-wide local content requirements are also imposed under the government's progressive development program for automobiles. Current guidelines also specify that participants in the automobile development program generate, via exports, a certain ratio of the foreign exchange needed for import requirements.

Current Philippine regulations restrict domestic borrowings by foreign firms. The limits are set as maximum debt-to-equity ratios (depending on the type of activity) which must be maintained for the term of the debt.

Government Procurement Practices: In general, Philippine government procurement policies do not discriminate against foreign bidders. However, preferential treatment is given in the purchase of medicines, rice for government employees, corn for domestic consumption, and iron and steel products for use in government projects. Petroleum requirements by government agencies must be procured from government-owned sources.

Awarding of contracts for government procurement of goods and services have to pass competitive bidding. For infrastructure projects which require a public utility franchise (e.g. water and power distribution, public telephone and transportation system), the contractor must be at least 60 percent Filipino. For other major contracts, such as build-operate-transfer (BOT) projects, where operation may not include a public utility franchise, a foreign constructor must be duly accredited by its government to undertake construction work. To the benefit of U.S. suppliers, areas of interest including power generation equipment, communications equipment and computer hardware do not generally confront significant restrictions. The Philippines is not a signatory to the GATT Government Procurement Code.

Customs Procedures: All imports valued at over US $500 are permitted only with a pre-shipment inspection report called a "Clean Report of Findings" issued by the authorized outport inspector. To fix import duties, the Bureau of Customs utilizes Home Consumption Value (HCV). This permits arbitrary valuation which in many cases (according to extensive anecdotal evidence) does not reflect the selling price. Valuation is inconsistent from country to country.

The government has committed to replace HCV to conform to its GATT obligations. The shift is to be phased in over several years, first by a move to a modification of the Brussels definition of value in 1995. Legislation to replace the HCV system is pending before the Congress, and it is doubtful that a change will be implemented before the year end. The Philippines is not a signatory to the GATT Customs Valuation Code.

6. Export Subsidies Policies

Enterprises (dominated by exporters) 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.

Financing is available to all Philippine exporters and there is no preferential rate for domestic companies. Without prior BSP approval, 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. To cushion the impact of a strong peso (between January and August 1994 the peso appreciated against the US dollar by five percent from 27.724 to 26.313), the BSP further eased export financing rules. Recently, FCDU loans were made available also to indirect exporters who are now allowed to spend the dollar loan to cover not only their dollar requirements, but also their peso requirements provided proceeds of the loans will be used for the production of export goods.

An Export-Import Banking Program of the Development Bank of the Philippines, launched primarily to address the needs of the exporting community, reduced interest rates from 13 to 11.5 percent between August and September 1994. In particular, export-oriented activities that are labor-intensive and which will utilize local raw materials benefit from this program. The Philippines is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

While Intellectual Property Rights (IPR) protection is improving, serious problems remain, and the issue remains a bilateral trade concern. Current penalties for infringement and counterfeiting are not real deterrents. Insufficient funding 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.

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, and the Bern Convention for the Protection of Literary and Artistic works. It is a member of the World Intellectual Property Organization.

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 which commits the Philippine government to improve its legislative protection and to strengthen enforcement significantly. The Philippine government has generally complied with the agreement, except for legislative improvements. Legislation incorporating all legislative commitments under the bilateral was targeted for submission to Congress before June 1994. The government did not, however, meet the deadline, but remains committed to submitting the legislation.

Patents: The present law recognizes the 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 easier for pharmaceutical and food products, because 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 to the patent law 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. Many well-known international trademarks are copied, including denim jeans, designer shirts, and personal beauty and health care products. Some US firms—for example Disney—have had success in curbing piracy in cooperation with Philippine enforcement agencies. The National Bureau of Investigation (the Philippine equivalent of the FBI) has been cited by the private sector for its excellent cooperation recently in conducting raids against trademark violators. 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 and 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 (about US $10) or above. This decree, especially for textbooks, is inconsistent with the appendix of the 1971 text of the Berne Convention. However, the Philippine government is expected, under the terms of the bilateral IPR agreement with the U.S. reached in April 1993, to correct these deficiencies through accession to the Paris Act of the Berne Convention, and through amendments to its domestic legislation.

Video piracy is a serious problem, but has declined from about 80 percent of the market a few years ago to about 60 percent now. The government's Videogram Regulatory Board (VRB) is tasked with fighting video piracy. Due to budget constraints, the bulk of its efforts are focused in Metro Manila. Copyright protection for sound recordings, currently 30 years, is shorter than the internationally accepted norm of 50 years. The government has committed to submitting amendments to the Philippine Congress to bring the term of copyright protection into conformity with international norms. Industry sources estimate that piracy of recorded music—mostly cassettes, although imported pirated CDs from the UAE and China are starting to show up in Metro Manila shops—has fallen to an average of about 40 percent. About 98 percent of all computer software sold is pirated. Computer shops routinely load software on machines as a free "bonus" to entice sales. The Philippine government is probably the largest user of pirated software, although some agencies are reportedly considering shifting to legitimate versions.

New Technologies: Many shops rent video laser discs purchased at retail stores in the United States without payment of commercial rental fees. More recent issues involve copyright infringement complaints against cable television stations which retransmit copyrighted works without authorization from or payment to the copyright owners. The bilateral IPR agreement of April 1993 commits the government 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 form and join trade unions is assured by the Constitution and legislation, and is freely practiced without government interference throughout the country. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groupings. Subject to certain procedural restrictions, strikes in the private sector are legal. Unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike. A 1989 law stipulates that all means of reconciliation must be exhausted, and the strike issue has to be relevant to the labor contract or the law.

b. *The Right To Organize and Bargain Collectively.*—The right to organize and bargain collectively is guaranteed by the Philippine constitution. The Labor Code protects and promotes this right for employees in the private sector. The same right is extended to employees in government-owned or controlled corporations. A similar but more limited right is afforded to employees in most areas of government service. Dismissal of a union official or worker trying to organize a union is considered an unfair labor practice. Nevertheless, employers sometimes attempt to intimidate workers by threats of firing or closure. Although labor law and practice are uniform throughout the country, including export processing zones (EPZs), unions have been able to organize workers in only one of the EPZs. Work stoppages and total man-days lost to labor strife have been trending downward, with 64 work stoppages (involving 390,000 workdays) recorded in the first 8 months of 1994. On an annualized basis, this suggests current year totals some 20 to 30 percent lower than those in 1993.

c. *Prohibition of Forced or Compulsory Labor.*—The Philippines prohibits forced labor. As the world's foremost "exporter" of both unskilled and trained labor, it is sensitive to reports of abuse of Philippine workers overseas.

d. *Minimum Age for Employment of Children.*—Philippine law prohibits the employment of children below age 15, except under the direct and sole responsibility of parents or guardians, or where employment in cinema/theater/radio or television

is essential. The parent/guardian or employer is required to ensure the child's health, safety, and morals, to provide for the child's education or training, and to procure a work permit. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor but forbids employment of persons under 18 years in hazardous work. However, a significant number of children are employed in the informal sector of the urban economy or as field laborers in rural areas.

e. *Acceptable Conditions of Work.*—The Minimum Wage Act of 1989 authorized Tripartite Regional Wage Boards to set minimum wages. Rates were last revised in late 1993, with the highest in Manila and lowest in rural regions. The minimum wage for workers in the National Capital Region (NCR) was approximately US $5.60 (145 pesos) per day. Wage boards outside the NCR, in addition to establishing lower minimum levels, also exempted employers according to such factors as establishment size, industry sector, involvement with exports, and level of capitalization. This approach excludes substantial numbers of workers (especially agricultural workers, domestics, laborers, janitors, messengers, and drivers) from coverage under the law. Detected minimum wage violations surged in the immediate aftermath of 1993 rate revisions, when inspectors found one in four employers paying less than the minimum. The standard legal work week before overtime is 48 hours for most categories of industrial workers and 40 hours for government workers. The law mandates a full day of rest weekly and overtime for any hours worked over an eight per day limit. Employees with more than one year on the job are entitled to five days of paid annual leave. A comprehensive set of occupational safety and health standards exists in law. Enforcement statistics suggest a downtrend in "technical safety standard" violations, from 20 percent of inspected units in 1992 to 18.2 percent in 1993, and 15.4 percent in the first five months of 1994. Statistics on work-related accidents and illnesses are incomplete, as incidents (especially in regard to agriculture) are under-reported.

f. *Rights in Sectors with U.S. Investment.*—American and other established multinational firms apply U.S., European, or Japanese standards of worker safety and health to meet the requirements of their home-based insurance carriers. They also treat their work force according to professional employee management principles. Firms in the EPZs have resisted efforts to unionize their workers.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		960
Food & Kindred Products	275	
Chemicals and Allied Products	386	
Metals, Primary & Fabricated	27	
Machinery, except Electrical	−2	
Electric & Electronic Equipment	161	
Transportation Equipment	0	
Other Manufacturing	114	
Wholesale Trade		151
Banking		368
Finance/Insurance/Real Estate		(1)
Services		−196
Other Industries		6
TOTAL ALL INDUSTRIES		1,170

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1985 prices) [2]	39,761	44,072	51,301
Real GDP Growth (pct.) [2]	6.0	9.9	9.5
GDP (at current prices) [2]	48,547	55,085	66,462
By Sector: (1985 prices)			
Agriculture	100	98	111
Energy/Water	831	898	1,598
Manufacturing	10,981	12,161	14,659
Construction	2,707	2,947	3,510
Rents	N/A	N/A	N/A
Commerce	7,218	7,892	9,061
Transport/Communications	5,843	6,453	7,573
Financial/Business Services	10,391	11,849	3,868
Government/Health/Education/Other Services	4,053	4,315	4,839
Net Exports of Goods & Services	1,164	512	4,104
Real Per Capita GDP	12,504	13,519	15,360
Labor Force (000s)	1,620	1,634	1,675
Unemployment (pct.)	2.7	2.7	2.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.9	8.5	12.0
Base Interest Rate [3]	5.6	5.3	5.9
Personal Saving Rate [3]	1.8	1.6	2.15
Retail Inflation [4]	−6.8	−3.8	−3.2
Consumer Price Index	2.3	2.4	4.0
Exchange Rate (SD/USD)	1.63	1.62	1.52
Balance of Payments and Trade:			
Total Exports (FOB) [5]	40,723	44,661	58,311
Exports to U.S.	11,234	12,744	14,656
Total Imports (CIF) [5]	49,427	57,881	64,573
Imports from U.S.	8,949	10,655	12,897
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	14.9	7.2	3.0
Debt Service Payments	10.6	10.2	3.6
Gold and Foreign Exch. Reserves	40,386	48,191	53,145
Trade Balance [5]	−5,782	−8,066	−3,820
Trade Balance with U.S.	1,497	1,932	2,332

N/A—Not available.
[1] Data for 1994 estimated based on first half of 1994 data and current expectations for second half of 1994.
[2] Based on market prices, factor cost data not available. Growth is based on local currency to remove exchange rate effect.
[3] Average of rates quoted by 10 leading banks.
[4] Based on retail sales.
[5] Merchandise trade.

1. General Policy Framework

Sitting astride one of the major shipping lanes of the world, Singapore has long adopted export-oriented free-market economic policies that encourage two-way flows of trade and investment. These policies have allowed this small country to develop one of the world's most successful open trading and investment regimes. Over the past decade real GDP grew at average annual rate of seven percent; 1993's economic growth rate was 9.9 percent. Singapore actively promotes trade liberalization in the region through its activities in APEC and ASEAN. It ratified the Uruguay Round GATT agreement in October 1994 to become one of the founding members of the World Trade Organization.

Taking into account a lack of natural resources and a small (3.2 million population) domestic market, Singapore's policies have created a climate encouraging economic growth, including an open trade environment, a corruption-free pro-business regulatory framework, political stability, public investment in infrastructure, high savings and prudent fiscal management, a trained labor force, and significant tax concessions to foreign investors. Singapore's fiscal policies have enhanced export and investment growth. The government has had a budget surplus for most years since the 1970's. The country's reserves (US $48.2 billion in 1993) are conservatively invested by the Singapore Government Investment Corporation. The Central Provident Fund (CPF) compulsory savings program is the basis for the national savings rate of 47 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. Strict financial discipline is the government's most important tool for controlling inflation. Although inflation is moderate by international standards (2.4 percent last year and 3.5 percent so far this year), an acute labor shortage and rising property values have intensified inflationary pressures. The MAS maintains a strong currency to check inflation, particularly imported inflation, given Singapore's extreme exposure to international trade.

Singapore has become a major center for electronics, oil refining and financial services, acting as a hub for the growing southeast Asian market. Singapore's sound economic policies which promote private investment have attracted about 900 U.S. companies to Singapore, with cumulative investments of US $18.9 billion in 1993. The United States is Singapore's largest trading partner, accounting for 18 percent of total trade in 1993. U.S. imports to Singapore in 1993 were US $10.7 billion and Singapore's exports to the United States were US $12.7 billion.

2. Exchange Rate Policy

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. The MAS uses currency swaps and direct open market operations to keep the Singapore dollar within a desired trading range, guarding against the internationalization of the Singapore dollar so as not to lose control over its monetary and economic policies.

The Singapore dollar appreciated 17 percent against the U.S. dollar from 1989 to 1993. Since the end of 1993 to mid-October 1994, the Singapore dollar has strengthened another 8 percent. This has not adversely affected Singapore's economy as nearly all of its production inputs are imported. The strong Singapore dollar has helped to make U.S. products more competitive in the Singapore market.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the ninth largest customer for U.S. products in 1993, up from 11th in 1992. Prices for virtually all products are determined by the market. The government lets bids by open tender and encourages price competition throughout the economy.

Singapore's tax policy is designed to maintain its international competitive position. Foreign firms are taxed on the same basis as local firms. The corporate tax is currently at 27 percent. The government aims to bring the corporate tax down to 25 percent in the next few years. There are no taxes on capital gains, turnover, or development. The Government implemented a 3 percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate and personal taxes. Tariffs exist for only a few products. Excise duties are levied on cigarettes, alcohol, petroleum products and motor vehicles primarily to control social behavior and restrict motor vehicle numbers. There are no nontariff barriers to foreign goods.

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

4. Debt Management Policies

Singapore's external public debt was a negligible US $7.2 million at the end of 1993, and its debt service ratio is less than 0.1 percent. Singapore's budget surpluses and mandatory savings have allowed the government wide latitude in supporting infrastructure, education, and other programs contributing significantly to national development.

5. Significant Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Nearly 99 percent of imports enter duty free. Import licenses are not required, customs procedures are minimal and highly efficient, the standards code is reasonable and the government actively encourages foreign investment. All major government procurement is by international tender. The Government ratified the Uruguay Round GATT accord on October 18, 1994.

Singapore maintains some market access restrictions in the services sector. Local retail banking is limited to those foreign banks with full or restricted licenses–the Monetary Authority of Singapore has issued no new ones to foreign or domestic banks since 1970, as it considers Singapore over-banked. Foreign banks hold over half the retail licenses. Foreign retail banks are not allowed additional branches or ATM machines although local banks are allowed to expand. No new licenses for direct (general) insurers are being issued, although re-insurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 58 direct insurance licenses. Foreign securities firms are not permitted to have full membership in the Stock Exchange of Singapore.

The telecommunications sector has been steadily liberalized since 1989. There are no restrictions on the sale of telecommunications consumer goods except that they must meet the technical standards set by the Telecommunications Authority of Singapore (TAS). Provision of value-added network services (VANS) have also been liberalized. Newly listed on the stock exchange, Singapore Telecom's monopoly to provide basic telecommunication services will end in 2007.

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 has taken concrete measures in recent years to improve its level of intellectual property protection. Singapore recently became a member of the World Intellectual Property Organization (WIPO), and has already ratified the Uruguay Round Accord including the TRIPS provisions. Singapore is not a party to the Berne Convention or the Universal Copyright Convention. In 1987, following close consultation with the U.S. Government, Singapore enacted strict, comprehensive copyright legislation which relaxed the burden of proof for copyright owners pressing charges, strengthened civil and criminal penalties and made unauthorized possession of copyrighted material an offense in certain cases. In January 1991, Singapore similarly strengthened its Trademark Law. In 1994 Singapore enacted a new Patents Act.

Problem Areas

Patent Law: Singapore enacted a new Patents Act in October 1994 which was designed to introduce local patent registration (previously patents had to be registered in the United Kingdom before being registered in Singapore). U.S. companies dislike several provisions of the new law (chiefly in the compulsory licensing area) and a number of provisions do not conform to the TRIPS agreement. The Singapore government has pledged not to invoke the new compulsory license provisions, and has promised to bring the patent law into full compliance with TRIPS provisions within the next several years.

Copyrights: The problem of pirated computer software in Singapore has significantly lessened in the past year as the government has taken a more active stance. In response to concern expressed by the U.S. government and several intellectual property protection associations, Singapore markedly stepped up enforcement of copyright protection in 1994, including government prosecution of one case which resulted in a felony conviction and jail sentence. As a result of stepped up enforcement, copyright infringement in the computer and software areas has been significantly reduced in 1994. In response to motion picture and phonographic industry complaints that the Singapore government is not doing enough to stem the importation and transshipment of pirated videos and compact disks, Singapore's Board of Censors has begun to screen for pirated materials before issuing censorship seals.

Industry associations have estimated losses due to compulsory licensing provisions of the patent law total approximately US $5 million. Software piracy losses have been significantly reduced since last year when the industry loss estimate was US $32.2 million. We have no industry estimates for this year.

8. Worker Rights

Article 14 of the Singapore's constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds impose restrictions. The right of association is delimited by the Societies Act and, labor and education laws and regulations. In practice, communist labor unions are not permitted. Singapore's labor force numbered 1.64 million in 1993, with some 236,000 workers organized in 85 trade unions. Ninety-nine percent of these workers in 80 unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister without Portfolio in the Prime Minister's Office.

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

Under sections of Singapore's Destitute Persons Act, any indigent person may be required to reside in a welfare home and engage in suitable work. The Government enforces the Employment Act which prohibits the employment of children under 12 years and restrict children under 16 from certain categories of work. The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards. However, Singapore has no minimum wage or unemployment compensation. Because of 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, reduced the frequency of job-related accidents by one-third over the past decade. The average severity of occupational accidents has also been reduced.

U.S. firms have substantial investments in several sectors of the economy, including petroleum, chemicals and related products, electric and electronic equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors. The growing labor shortage has forced employers mainly in the electronics industry to hire many unskilled foreign workers. Over 360,000 foreign workers are employed legally in Singapore, 22 percent of the total work force. The government controls the number of foreign workers through immigration regulation and through levies on firms hiring them. Foreign workers face no legal discrimination, but, because they are mostly unskilled, they are general paid less than Singaporeans.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,937
Total Manufacturing		4,632
Food & Kindred Products	86	
Chemicals and Allied Products	525	
Metals, Primary & Fabricated	30	
Machinery, except Electrical	1,796	
Electric & Electronic Equipment	1,873	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		1,076
Banking		469
Finance/Insurance/Real Estate		356
Services		187
Other Industries		125
TOTAL ALL INDUSTRIES		8,782

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

TAIWAN

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1991 prices)	176.3	178.6	188.6
Real GDP Growth (pct.)	6.5	6.2	6.2
GDP (at current prices)	206.6	216.4	234.2
By Sector:			
Agriculture	7.3	7.8	7.9
Energy/Water	5.9	6.0	6.4
Mining/Quarrying	1.1	1.3	0.8
Manufacturing	67.9	68.5	72.5
Construction	10.7	11.9	13.2
Commercial Services	33.7	35.7	15.4
Transport/Communications	13.0	13.9	15.4
Financial Services	39.7	43.3	49.5
Government/Other Services	27.3	28.0	29.4
Net Exports of Goods & Services	5.1	4.0	3.4
Real Per Capita GDP (USD–1986 prices)	8,538	8,568	8,936
Labor Force (000s)	8,765	8,864	9,100
Unemployment Rate (pct.)	1.5	1.5	1.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.6	15.1	15.0
Base Interest Rate[2]	8.2	7.9	7.6
Personal Savings Rate	−7.4	−1.6	−2.9
Retail Inflation	4.5	2.9	3.8
Wholesale Inflation	−3.7	2.5	1.9
Consumer Price Index (1991 base)	104.47	107.54	111.66
Exchange Rate (Dollar/NTD)[3]			
Official	0.03946	0.03787	0.03789
Unofficial	0.03964	0.03779	0.03794
Balance of Payments and Trade:			
Total Exports (FOB)[4]	81.5	85.1	90.5
Exports to U.S.	23.6	23.6	23.9
Total Imports (CIF)[4]	72.0	77.1	83.5
Imports from U.S.	15.8	16.7	18.0
Aid from U.S.[5]	43.0	34.2	26.5
Aid from Other Countries	0	0	0
External Public Debt	0.5	0.4	0.3
Debt Service Payments (paid)	2.1	1.8	1.7
Gold and Foreign Exch. Reserves	88.3	89.3	97.0
Trade Balance	9.5	8.0	7.0
Trade Balance with U.S.	7.8	6.9	5.9

[1] 1994 figures are estimates based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1994.
[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 debt owed. AID disbursements stopped in 1968.

1. General Policy Framework

Over the past four decades, Taiwan has produced one of the world's major economic success stories, achieving annual economic growth averaging nine percent between 1952 and 1993. Real gross national product (GNP) increased six percent in 1993 and is expected to expand by another six percent in 1994. Per capita GNP was $10,553 in 1993. Taiwan holds foreign exchange reserves of about $91 billion, more than any country except Japan. Prices rose 2.9 percent in 1993 and are expected to rise about 3.5 percent in 1994.

Taiwan's increasing economic prosperity has been accompanied by a major structural transformation. Appreciation of the New Taiwan Dollar (NTD) and rising labor and land costs have led many manufacturers of labor intensive products such as toys, apparel and footwear to move offshore, mainly to southeast Asia and mainland China. Industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, and electronic components, as well as consumer goods industries such as food processing. Taiwan's economy continues to be export oriented, with exports accounting for 44.5 percent of GNP. In the past several years, GNP growth has been driven by increases in domestic consumption, increased public spending on infrastructure, and private investment.

Falling official savings and growing public expenditures have caused public debt to increase steadily. This has compelled the local authorities to rely more on bonds and bank loans to finance major expenditures. Consequently, outstanding public debt has climbed, fast reaching almost 109 percent of the total central budget for Taiwan's fiscal year of 1995 (July 1, 1994 to June 30, 1995). While defense spending still accounts for the largest share of public expenditures, it is falling in both absolute and relative terms. The greatest pressure on the budget currently comes from growing demands for social welfare spending.

In the course of multilateral General Agreement on Tariffs and Trade (GATT) negotiations, Taiwan has committed to liberalize its trading regime in many sectors: manufactured products, agricultural products, and services. Taiwan hopes to accede to the GATT and its successor organization, the World Trade Organization (WTO), by early 1995.

2. Exchange Rate Policy

Taiwan has a floating exchange rate system in which bankers and their customers set rates independently of the authorities. Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. Foreign banks account for one-quarter of foreign exchange business, and the number of private domestic banks obtaining permits for foreign exchange dealing is increasing steadily. The exchange rate has been fairly stable at about one U.S. dollar equals 25–27 NT dollars since the major appreciation from one U.S. dollar equals 40 NT dollars in 1985.

The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair the normal function of the market. Two tools the CBC uses to influence the foreign exchange market are restrictions on banks' overbought and oversold positions and limits on the foreign liabilities banks can incur. Trade-related funds flow freely into and out of Taiwan, although the CBC maintains restrictions on the movement of funds in capital accounts. In the past year the local authorities have, however, relaxed a number of restrictions on capital account transactions.

3. Structural Policies

The Taiwan authorities have committed themselves to further reducing state direction of the macroeconomy and to pursuing a policy of privatization. At present, however, large state-run enterprises still account for nearly one-third of the economy. Electricity, water, petroleum products, transportation, sugar, steel, the domestic production of cigarettes and alcoholic beverages, and banking are all either partly or entirely in the hands of state-owned firms. To meet the goal of accession to the GATT, the authorities said they will reduce the scope of state control by permitting private firms to generate up to 20 percent of electricity. A private firm has already begun to build a naphtha cracker.

Pricing is generally left to the private sector, but is distorted by high tariffs on some sectors. 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.

In March 1994, the Taiwan authorities cut tariffs on industrial products at the behest of the United States, the latest in a series of tariff cuts Taiwan has implemented in recent years. The authorities have not, however, reduced tariffs on another 758 items requested by the United States. Taiwan's tariff and pricing structure on agricultural products in particular pose obstacles for U.S. exports, with tariffs on some agricultural goods running as high as 40–50 percent, and imports of products such as rice, peanuts, small red beans, sugar, chicken meat, duck parts and some pork products being banned. Retail food prices are higher than those that would prevail in a more liberalized market due to high import duties, commodity taxes on diluted fruit and vegetable juices, protected agricultural production, and an inefficient distribution system characterized by layers of high markups. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB), which has a monopoly on the do-

mestic production of cigarettes and alcoholic beverages, guarantees artificially high prices for tobacco, rice, grapes, and other products.

4. Debt Management Policies

Taiwan is virtually free of foreign debt. By the end of June 1994, Taiwan's long term outstanding external public debt totaled $389 million, compared to gold and foreign exchange reserves of nearly $96 billion. These international reserves suffice to meet Taiwan's capital requirements for 15 months of imports. Taiwan's debt service payment in 1993 totaled $1.8 billion, accounting for only 1.9 percent of exports of goods and services. With these huge international reserves in hand, Taiwan's central authorities and state-owned enterprises see little need to incur foreign debt, even with the spending anticipated for the six-year national development plan and growing demands for domestic welfare spending. As of June 30, 1994, the outstanding external public debt accounted for less than one percent of the central authorities' total outstanding public debt.

Loans committed by the Taiwan authorities to the world exceeded $1 billion at the end of 1993. This number includes credit supplied by the Ministry of Foreign Affairs and the International Economic Cooperation Development Fund (IECDF) but does not include credit from state-owned banks. In 1993 and 1994, the IECDF offered low-interest loans to the Philippines to convert Subic Bay into an industrial zone. Through a relending arrangement, it provided low-interest loans to Vietnam to build highways and industrial parks and finance small business firms' imports from Taiwan. Taiwan has also made contributions to the Central American Bank for Economic Integration, European Bank for Reconstruction and Development, and Asian Development Bank (ADB). In addition, the ADB has floated bonds in Taiwan.

5. Significant Barriers to U.S. Exports

The persistent U.S. trade deficit with Taiwan has been steadily shrinking. Taiwan's accession to GATT/WTO will open markets for goods and services in which the United States is competitive but will also remove area restrictions which favored U.S. suppliers by restricting some other nations' imports to Taiwan.

Import licenses: On July 1, 1994, Taiwan simplified its import procedures for its 8,500 import categories by implementing a negative list. This list increases the percentage of import categories exempt from controls from 34 percent to 85 percent. There are 765 items that require approval documentation from relevant authorities for Customs examination during customs clearance. Another 474 items are imported under special conditions: 320 items require import permits from the Board of Foreign Trade (BOFT) and 154 require pro forma notarization by banks. Imports are banned for 247 items, including ammunition, rice, chicken meat and some fruits (bananas, papayas, guavas, pineapples and mangoes).

Services Barriers: In the past one and a half years, Taiwan has removed many discriminatory limits on foreign securities firms, insurance companies, and banks, including those affecting branching, NT dollar deposits, and scope of business. Remaining services barriers include:

Financial: The local authorities limit foreign ownership of securities investment and trust companies, local brokerage firms dealing in offshore futures, and local companies listed on the Taiwan Stock Exchange (TAIEX). Foreign individuals are prohibited from trading in shares on the TAIEX.

Legal: Foreign law firms that wish to operate in Taiwan must either set up as a consulting firm or enter into a partnership with a local firm.

Insurance: Taiwan prohibits mutual insurance companies. Under current regulations, setting up a branch for a foreign newcomer can be a lengthy process: the foreign applicant must have one year of experience in Taiwan as a representative office before applying to become a branch, and it needs five years of experience dealing with Taiwan before it can establish a representative office.

Transportation: Taiwan does not permit foreign ocean carriers to truck containers to their ultimate destinations on the island.

Telecommunications: U.S. firms are not allowed to provide basic or "type II" value-added network (VAN) services such as information storage and retrieval, information processing, remote transactions, and electronic data interchange.

Motion Pictures: Taiwan restricts the import of foreign film prints to 24 per title (up from 16 as of October 1, 1994). No more than nine theaters in any municipality may show the same foreign film simultaneously.

Standards, Testing, Labeling, and Certification: Taiwan has committed to join the GATT Code on Technical Barriers to Trade as part of its GATT/WTO accession process. Among the existing requirements which particularly affect U.S. products are those pertaining to agriculture. Taiwan's lack of an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables 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: Taiwan welcomes foreign investment, which it recognizes contributed to its development. It is reducing remaining investment barriers both as part of its GATT/WTO accession process and as part of its drive to become a regional operations center. Foreign investment is prohibited, however, in such industries as agriculture, basic telecommunications, broadcasting, cigarette manufacture and liquor distilling. Equity participation is limited in several other industries, including shipping, mining and securities trading. Local content requirements, phased out for most manufacturing industries, remain in place for the automobile and motorcycle industries. Foreign administrative personnel are limited to no more than five per company, with the exact number allowed dependent on business volume and the size of the investment. Foreign individuals are not allowed to purchase shares on Taiwan's stock market. An institutional investor may invest no more than $200 million on the stock market. A ceiling of $7.5 billion exists for all foreign institutional investment. A foreign institutional investor may only remit invested principal three months after his funds have arrived in Taiwan. Capital gains may only be remitted one year after funds have arrived in Taiwan.

Procurement Practices: In theory, public procurement which exceeds NTD 50 million ($1.87 million) should go through the state-owned Central Trust of China. However, numerous exceptions to this policy have created a situation in which most procurement actions (by value) are not done by the Central Trust of China. In addition, each agency has its own set of procurement regulations and practices (often unwritten), making the process cumbersome, confusing, 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. Taiwan's Industrial Cooperation Programs (ICPs) represent a form of offset and are becoming more prevalent. The ICPs require foreign vendors to propose programs that transfer technology, procure locally, and assist with marketing. Taiwan has informed GATT members of its desire to negotiate adherence in the Uruguay Round Agreement on Government Procurement.

Customs Procedures: Taiwan has agreed to abide by the GATT customs valuation code, but still uses reference prices for certain agricultural imports. In order to simplify customs 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 linkup. The authorities planned to implement a similar automated system for sea cargo in November 1994. Importers who open a deposit with customs can clear merchandise first and pay tariffs later.

6. Export Subsidies Policies

The Taiwan authorities generally refrain from using subsidies and tax policies to subsidize exports, but exceptions do exist. 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 exports (produced solely by a state-run company) virtually all go to the United States to maintain the U.S. quota for Taiwan. The TTWMB guarantees prices for products which are used as materials for tobacco and alcoholic goods. In addition, Taiwan authorities offer guaranty prices for a part of rice and other cereal crops produced by farmers.

7. Protection of U.S. Intellectual Property

Taiwan's protection of intellectual property rights (IPR) has improved substantially in the past few years. A series of important laws have been passed since 1992, including revised copyright, patent and trademark laws, a U.S.-Taiwan bilateral copyright agreement, and a cable television law. Together with new legislation currently under consideration to protect integrated circuits and trade secrets, these laws give Taiwan an IPR legal structure consistent with GATT TRIPS text standards. Improved enforcement efforts, including the establishment of computerized export monitoring systems for computer software and trademark goods, have led to a reduction in computer software, video, laser disc and compact disc piracy. Inconsistent decisions by Taiwan's trademark and patent examiners highlight the need

for better training and more standardized examination and registration procedures. Taiwan is on the Special 301 watch list. Taiwan is not a member of any major multilateral intellectual property conventions.

Patents: The revised patent law replaced most criminal penalties for patent infringement with tougher civil penalties. U.S. companies are concerned that, in light of Taiwan's relatively undeveloped civil law system, penalties are insufficient to deter infringement.

Trademarks: Counterfeiting of famous name products has decreased, but remains a problem. Taiwan's voluntary export monitoring system for trademarked goods should help if enough U.S. firms choose to participate.

Copyrights: The export of counterfeit copyrighted goods has dropped markedly. The unauthorized copying of computer software and manufacture of counterfeit video games remain problems.

New Technologies: Inspection and monitoring efforts by the authorities have sharply reduced the unauthorized use of copyrighted programming on cable television. Taiwan courts have not yet taken a clear position on the legality of the retransmission of unencoded satellite signals.

The International Intellectual Property Alliance estimated that the piracy of software, movies, music recordings and books in Taiwan cost U.S. companies $150 million in 1993.

8. Worker Rights

a. *The Right of Association.*—As a democracy, Taiwan has a large number of independent labor organizations. Many of these organizations, however, lack a firm legal footing and the right to demand collective bargaining, because they are not registered under Taiwan's Labor Union Law (LUL). According to the LUL, all workers (except for civil servants, teachers, and defense industry workers) can organize trade unions, but only after obtaining the approval of the authorities. The LUL forbids the emergence of competing trade unions and confederations. Most of the 3,654 officially registered labor unions have close relations with management and the ruling Kuomintang (KMT) party.

b. *The Right to Organize and Bargain Collectively.*—The LUL, the Law Governing the Handling of Labor Disputes, and the Collective Agreement Law give workers the right to organize and bargain collectively. These laws further stipulate that employers may not refuse employment to, dismiss, or otherwise unfairly treat workers on the basis of their union membership or participation in mediation and arbitration. In practice, however, employers have at times ignored these laws without suffering any legal action. As of June 1994, 293 formal collective agreements were in force, about the same number as in 1993. Collective bargaining agreements exist mainly in large-scale enterprises, which account for less than five percent of the enterprises on Taiwan.

c. *Prohibition of Forced or Compulsory Labor.*—Under the Labor Standards Law (LSL), forced or compulsory labor is prohibited. Violation of the law is punishable by a maximum jail sentence of five years. The only reported cases of forced labor involved prostitution.

d. *Minimum Age of Employment of Children.*—The LSL stipulates that the minimum age for employment is 15 years (i.e., after compulsory education ends). Child labor is rare in Taiwan. As of October 1994, the authorities had approved the employment of 11,915 minors between 15 and 16 years old by manufacturing industries.

e. *Acceptable Conditions of Work.*—The LSL limits the work week to 48 hours (8 hours per day, 6 days per week). The LSL also has provisions for leave, overtime pay, retirement pay and minimum wages. In August of 1994, the authorities raised the minimum monthly wage by about 5 percent from the equivalent of $510 to $540. The average monthly wage in the manufacturing sector averaged the equivalent of $1,110 in 1993. In addition to wages, employers typically provide additional payments and benefits, including an 80 percent labor insurance premium, the distribution of labor welfare funds, and meal and transportation allowances to workers.

f. *Rights in Sectors with U.S. Investment.*—U.S firms and joint ventures generally abide by Taiwan's labor regulations. In terms of wages and other benefits, U.S. firms tend to provide model work conditions. Worker rights do not vary significantly by industrial sector. Working conditions, however, tend to be relatively better in the information 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,896
Food & Kindred Products	80	
Chemicals and Allied Products	802	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	87	
Electric & Electronic Equipment	775	
Transportation Equipment	(1)	
Other Manufacturing	72	
Wholesale Trade		454
Banking		401
Finance/Insurance/Real Estate		144
Services		79
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,096

[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]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1988 prices)	89 934	97,595	104,857
Real GDP Growth Rate (pct.)	7.9	8.2	8.0
GDP (at current prices)	111,495	124,772	140,321
By Sector:			
Agriculture	13,446	12,472	13,838
Energy/Water	2,579	3,053	N/A
Manufacturing	31,233	35,578	38,975
Construction	7,523	8,578	N/A
Rents	3,008	3,237	N/A
Financial Services	7,079	9,019	N/A
Other Services	42,438	48,162	N/A
Government/Health/Education	4,189	4,673	N/A
Net Exports of Goods & Services	−5,533	−6,310	N/A
Per Capita GDP (current USD)	1,930	2,130	2,351
Labor Force (000s)	32,420	33,100	33,800
Unemployment Rate (pct.)	3.0	3.2	3.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	15.6	18.4	[1] 12.6
Base Interest Rate	11.5	10.25	11.5
Personal Savings Rate	4.9	N/A	N/A
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	0.2	−0.4	[5] 3.1
Consumer Price Index	4.1	3.3	[3] 4.9
Exchange Rates (B/USD avg.).			
Official	25.40	25.32	[2] 25.22
Parallel	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Balance of Payments and Trade:			
Total Exports, (FOB)	32,466	37,159	[2]28,360
Exports to U.S.	7,284	7,287	[2]6,046
Total Imports (CIF)	40,679	46,242	[3]34,448
Imports from U.S.	4,772	5,373	[3]3,985
Aid from U.S. (FY-DA obligation)	0.7	6.4	5.1
Aid from Other Countries (FY)	N/A	N/A	N/A
External Public Debt (LT)	12,518	14,171	[4]14,973
Debt Service Payments (paid)	4,713	5,391	[4]1,658
Gold and Foreign Exch. Reserves	21.2	25.4	29.1
Trade Balance	−8,213	−9,083	[2]−6,088
Trade Balance with U.S.	2,512	2,614	[2]2,061

N/A—Not available.
[1] Preliminary estimates based on data available, October 1994.
[2] January through August (eight months).
[3] January through September (nine months).
[4] First Quarter 1994.
[5] June 1993–June 1994.
Sources: Bank of Thailand, Thai Ministry of Commerce, Thai National Economic and Social Development Board, U.S. Department of Commerce and U.S. 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 10 percent from 1987 to 1991 and has since hovered around eight percent. Economic growth and investment have slowed modestly and the political events of May 1992, which culminated in violence, temporarily undermined domestic and foreign investor confidence. However, the Thai economy remains fundamentally strong and has rebounded in the intervening two years. Recorded flows of foreign direct investment fell to $1.5 billion in 1993, down from $2 billion in 1992. Exports continued to expand to record levels during the first eight months of 1994, to $28 billion. The Thai government estimates that total Thai exports for 1994 will reach almost $48 billion, up 18.5 percent over 1993. 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 stressed addressing imbalances created through rapid industrialization by emphasizing rural development and reducing disparities in the distribution of income.

Rapid growth has had its drawbacks: infrastructure bottlenecks remain a problem and environmental degradation has worsened considerably in recent years. If unresolved, Thailand's infrastructure bottlenecks and shortages of skilled personnel will limit the pace of future growth. Metropolitan Bangkok's public works (communications facilities, roads and mass transit) are already overtaxed and will come under increasing pressure.

A drought in northern provinces during 1993 reduced agricultural output dependent on irrigation and reduced water supplies to the Bangkok metropolitan area in 1994. Abundant rainfall in 1994, however, has largely refilled reservoirs to capacity. Severe flooding in the north of Thailand during August 1994 destroyed some crops. Added to changes in Thai policies which reduced production, this has led to increased prices for agricultural goods in 1994.

The average amount of schooling for the Thai work force is less than six years, the lowest in the Association of Southest Asian Nations (ASEAN). The level of education of the work force will have to be raised to maintain Thailand's development pace and competitiveness with neighboring countries which have lower wage rates. The Thai government is fully aware of this problem and is in the process of expand-

ing mandatory years of schooling from six to nine. Wage gains continue to outpace substantially the growth of the consumer price index.

For the past six years Thailand has experienced a substantial government budget surplus as revenues were fueled by growth and government investment expenditures for major infrastructure projects lagged. For 1993 the government's overall surplus reached $2.7 billion, 2.2 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 and the Thai baht against the U.S. dollar, have tended to make U.S. exports to Thailand more price competitive.

In May 1990 the Thai government announced a series of measures to liberalize significantly the exchange control regime. It accepted the obligations of the International Monetary Fund's Article VIII which prohibits members from restricting current international transactions. Commercial banks were given permission to process all foreign exchange transactions and substantial increases were allowed in ceilings on money transfers not requiring Bank of Thailand preapproval and on spending by Thai tourists and businessmen abroad. In April 1991 and May 1992 additional rounds of foreign exchange liberalization substantially simplified foreign exchange reporting requirements and allowed banks to offer foreign currency accounts to individuals and businesses. The central bank also raised limits on Thai capital transfers abroad and allowed free repatriation (net of taxes) of investment funds, dividends, profits and loan repayments. It allowed exports to be paid for in baht without prior permission and companies to transfer foreign exchange between subsidiaries without having to change those funds into baht.

3. Structural Policies

The appointment of the first Anand administration in March 1991 set the stage for a flurry of legislative and regulatory reforms. The Anand government reduced market distortions, made tax policies more transparent and, in general, liberalized the domestic market. Although the nation's trade and current account deficits are large in relation to total GDP, the overall balance of payments remains in surplus because of tourism earnings and large inflows of foreign capital. This payments surplus and a substantial budgetary surplus have allowed the Thai government to reduce customs duties and liberalize its import regime. A wider reform of the import regime, reducing the number of tariff rates and eliminating most tariffs above 30 percent, is being pursued. Thailand began implementing the ASEAN Free Trade Area's (AFTA) tariff reductions in January 1993. Although it began slowly, AFTA has picked up speed as the six member nations (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) have started seeing results. At the September 1994 meeting of the ASEAN Economic Ministers in Chiang Mai, the AFTA members agreed to reduce the 15 year implementation schedule to 10 years, gradually to eliminate the exclusion list of protected items and generally to expand AFTA from a tariff reduction scheme into a real free trade area. Thailand has been one of the leading proponents of this effort. Thailand's trade relations have traditionally been oriented toward distant markets, particularly North America, Europe, and Japan, but the government sees the ASEAN Free Trade Area increasing intra-ASEAN trade as well.

Beginning in 1992 the Thai government 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 unified the corporate income tax rate at 30 percent. The government is considering a further reduction to 25 percent to attract more investment. 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. Since 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.

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, 19.6 percent in 1993 and

is projected to grow by over 30 percent in 1994; growth for the first nine months of 1994 has been greater than in all of 1993. The prime rate has declined from 14 percent in 1991 to 12 per cent in 1992 and 11 percent in 1993. It will be between 11 and 11.5 percent for 1994. Rates for one-year fixed deposits have declined from 10.5 percent to seven percent over the same period. With 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 $25 billion in 1991, $30 billion in 1992 and $36 billion in 1993. Net capital inflows, almost completely via the private sector, rose from $9.8 billion in 1992 to $11 billion in 1993 and reached $10.5 billion as of August 1994. Total public sector debt was about $13 billion in 1992 and $14 billion in 1993. The total debt service ratio (including private and short term debt) was 10.5 percent in 1991, 11.2 percent in 1992 and 11.3 percent in 1993. The public sector debt service ratio was about four percent in 1993.

5. Significant Barriers to U.S. Exports

Import duties range from zero to 68.5 percent ad valorem, along with other specific taxes of an equivalent or higher rate. These import duties, which have a weighted average of only 16.03 percent, were assessed on all imports in 1993, including 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. There are presently six classifications of import duties: zero to five percent on raw materials; one percent for special items such as medical instruments, ships and aircraft; up to 10 percent for intermediate products; 20 percent for finished products; 30 percent for special production items; and, 68.5 percent for luxury sedans.

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.

The Thai Food and Drug Administration issues import licenses for food and pharmaceutical imports. This licensing process can pose an important barrier because of its cost, duration and demand for proprietary information. Licenses for importers of food products cost 15,000 baht (about $600). These licenses must be renewed every three years. Licenses for importers of pharmaceuticals cost 10,000 baht (about $400) and must be renewed every year. Sample products imported in bulk require laboratory analysis at a cost of 1,000 to 3,000 baht (about $40 to $120) per item. Food products imported in sealed containers (consumer ready packaged) require laboratory analysis at a cost of 5,000 baht (about $200) per item. Registration as "specific controlled food items" is required for 39 food products at an additional cost of 5,000 baht (about $200) per item. Registration of pharmaceutical imports costs 2,000 baht (about $80) per item, with the cost of inspection of each item an additional 1,000 baht (about $40). 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 controlled 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 materials, 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 43 categories of items. In the food products area, licensing requirements remain for powdered skim milk and fresh milk, potatoes, soy beans and soy bean oil, refined sugar, coffee and others. Corn for animal feed is among those 10 categories which do not need import licenses

but must comply with concerned agencies requirements for surcharges, fees or certificates of origin.

Largely by restricting foreign bank entry, branching and acquisition of Thai banks, Thai authorities limit all foreign banks to a very small share of the total Thai banking market. That share comprises around seven percent of total commercial banking assets at present. Although an existing foreign bank license was bought in 1994, 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 each Thai bank; no person or group of related persons, whether Thai or foreign, may hold more than five percent of the shares of each Thai bank. The Thai government has indicated it is reviewing its regulations on foreign bank activities as part of the extended Uruguay Round negotiations on services and may allow new foreign bank branches during the next three to seven years.

Foreign banks do not receive national treatment in Thailand. Foreign banks are prohibited from opening branches and are not permitted to operate off-site automated teller machines (ATMs). Recently, regulations were changed to permit foreign banks to participate in the local ATM network. However, they have been unable to negotiate agreements to participate in the ATM network with domestic banks. 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.

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 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*

The Government of Thailand ratified the Uruguay Round agreements before the end of 1994, and became a founding member of the World Trade Organization (WTO). However, it is not a signatory to the GATT subsidies code. 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 established an export-import bank in September 1993 which took over some of these functions, particularly the packing credit program. Thai officials say that Thailand is considering acceding to the GATT subsidies code.

7. *Protection of Intellectual Property*

Improved protection for U.S. copyright, patent and trademark holders has been one of our most prominent bilateral trade issues over the past several years. Thailand has made significant progress in intellectual property protection over this period. Most importantly, Thailand passed a revised copyright law which addresses most of the U.S. concerns (especially protection for computer software). The law is expected to go into force in early 1995. This will bring the Thai copyright regime into conformity with international standards of the Uruguay Round agreement (TRIPS) and the Berne Convention (Paris Act). In addition, the Thai government has agreed to provide protection through administrative means for certain pharmaceutical products not entitled to full patent protection under Thai law. In recognition of this progress, Thailand was downgraded from the "priority watch list" to the "watch list" in November 1994. The U.S. Trade Representative (USTR) has begun a review of Thailand's status under the Generalized System of Preferences (GSP) program to determine whether to restore any of the GSP benefits lost in 1989 due to inadequate intellectual property protection.

Efforts on the part of the Thai government to enforce existing copyright laws have also improved since 1991, when most enforcement activities against intellectual property infringement were centralized and relatively ineffective. 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 by both governments to reduce copyright piracy increased 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 considerable 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 vigorous enforcement. The Ministry of Commerce set up a special Intellectual Property (IPR) Department in 1992 which is active in coordinating both the legal structure and enforcement efforts against all forms of violation of intellectual property. The Prime Minister receives a weekly briefing on the status of enforcement efforts and has seconded an official to the IPR Department to keep him thoroughly informed.

Concerns remain that Thailand's legal procedures do not provide adequate deterrence against copyright 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. This court, to be known as the Intellectual Property and International Trade Court, was proposed to the Thai Parliament in September 1994. Thai officials expect that these measures will speed up consideration of copyright and other IPR 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. The United States then formally concluded a Section 301 investigation of Thailand's patent protection of pharmaceuticals, begun in response to a petition filed by the U.S. Pharmaceutical Manufacturers Association. Both governments continue to discuss ways to resolve remaining U.S. concerns over Thailand's patent protection. Chief among these are finalizing measures to provide the transitional protection lacking in the 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 constitutions and rules, and to formulate 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 and restore those rights. The new legislation was introduced in the fall 1994 session of Parliament.

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.

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 nonhazardous 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, although a May 1993 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 these 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 workweek. The major exception is commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to no more than 48 hours per week.

f. *Rights in Sectors with U.S. Investment.*—U.S. capital investment is substantial in several sectors of the Thai economy, including petroleum (exploration, production, refining, and marketing), electronic components assembly and consumer products. Workers in these sectors, especially those working for U.S. and other western firms, usually enjoy labor conditions superior to those of the average Thai worker: the degree of unionization is greater, wages and benefits are higher, and health and safety standards are better. Child labor is rare or nonexistent among large multinational firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,011
Total Manufacturing		863
Food & Kindred Products	49	
Chemicals and Allied Products	228	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	221	
Transportation Equipment	(2)	
Other Manufacturing	79	
Wholesale Trade		250
Banking		300
Finance/Insurance/Real Estate		(1)
Services		59
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,893

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000.
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), which includes within its framework the European Community (EC), is a supranational organization which in some cases exercises exclusive authority to adopt legislation and to represent its membership in the international arena, and in other cases shares competence with the authorities of its member states. Its legal capacity is most highly developed in economic areas such as trade, antitrust policy, agriculture, transport, nuclear energy and in the environment. In areas within its exclusive competence, the EU is represented by the European Commission.

The Treaty on European Union (TEU, "Maastricht"), which came into force on November 1, 1993, introduced new areas for coordination among the member states and the EU institutions, such as the Common Foreign and Security Policy (CFSP) and Cooperation in Justice and Home Affairs ("Third Pillar"). Most notably, in the economic area, the TEU establishes a timetable which is to lead to Economic and Monetary Union (EMU) by 1999 at the latest. The aim is to introduce a single currency (the ECU), a common monetary policy, and an economic policy closely coordinated among the member states. The European Central Bank, to be based in Frankfurt, will control the money supply and interest and exchange rates.

The European Union comprises 15 member states: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Austria, Sweden and Finland.

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 began on January 1, 1994 with the establishment of the European Monetary Institute (EMI), the member states continue to coordinate their exchange rate policies through the European Monetary System (EMS) and, specifically, its Exchange Rate Mechanism (ERM). The EMI facilitates and monitors implementation of these arrangements. Member states retain full authority to set monetary policies during the second stage of EMU.

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

The EMS and ERM are not aimed at influencing trade flows with the United States or other third countries and are consistent with the Articles of Agreement of the International Monetary Fund. 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, and capital. While the legislative program is largely complete, gaps remain. Measures affecting certain specialized types of trade, such as that of precious metals and CITES-listed plant and animal species have not yet been adopted. The Schengen Accord on removing controls on people, agreed upon by nine member states (Austria has observer status), was to enter into force in February 1994 but has been delayed. When the accord goes into force, passport controls will be lifted at European airports on intra-EU flights; passport controls will continue on entry into Denmark, Ireland and the UK. 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. Transnational 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 about at 95 percent in October 1994.

Goods, Capital & 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 chapter 5 below).

Veterinary Regulations: In the area of veterinary regulation the EU 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 slaughter houses are now subject to the same requirements as facilities in third countries. However, in many 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. Since January 1993, the uneven application of the Single Market provisions has been the cause of many trade problems. The U.S. Government and other principal 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 CO_2/energy tax would substantially raise energy costs for industry, although no progress on the plan has been made since 1994. The debate continues over a packaging directive which 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. Service Exports

Broadcasting: The 1989 "Television Without Frontiers" directive requires a majority of television transmission time to be reserved for European programs where practicable. The United States believes that this provision is contrary to the spirit of the General Agreement on Tariffs and Trade (GATT). The U.S. and the EU were unable to resolve their differences over this issue at the Uruguay Round in 1993; 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. hopes that in the course of reviewing the 1989 directive, the EU does not either remove the element of flexibility contained in the quota provision or extend it to new services. The U.S. still reserves its ability to take Section 301 action against the EU on the issue.

Telecommunications: U.S. exports of telecommunications services and supplies are constrained by several EU practices. 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 (e.g. infrastructure, voice telephony). Two other impediments to the trade in telecommunications goods

and services are intellectual property rights protections (European Telecommunications Standards Institute, or ETSI/Standards) and government procurement practices. These issues are addressed later in the report.

Standards, Testing, Labelling and Certification: The United States-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 still 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 the 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 United States and the EU. An MRA would allow manufacturers in the United States to have their products tested and certified to the EU requirements by recognized Notified Bodies in the United States, and vice versa. MRA's would reduce conformity assessments costs and the time it takes to bring a product to market. The United States and EU held preliminary discussions in October 1992 and June 1993. In November 1993, the EU formally selected the United States as a priority country along with Canada, Australia and New Zealand. U.S. and EU officials held three rounds of negotiations in April, June and November 1994 in the following areas: pharmaceuticals, telecommunications, electrical products, medical devices, lawn mower safety equipment, and recreational craft.

ETSI/IPR: On September 5, 1994, ETSI abandoned its March 1993 IPR policy that had differed significantly from those long considered to be international norms (ISO and International Telegraph and Telephone Consultative Committee). In late September, the U.S. Computer and Business Equipment Manufacturer's Association (CBEMA), which had lodged a complaint with the European Commission's Competition Directorate (DG IV) asserting that the original ETSI policy violated Articles 85 and 86 of the Treaty of Rome, conditionally offered to withdraw its DG IV filing in light of ETSI abandonment of the March 1993 IPR policy. CBEMA's condition for withdrawing the policy was that ETSI also withdraw its separate DG IV request for a waiver of the same articles of the Treaty of Rome. In close consultation with U.S. business and the European Commission, the U.S. has supported efforts by all parties to reach a new, consensus ETSI/IPR policy. Until a new policy is adopted, it is difficult to determine whether or to what extent ETSI/IPR policy may remain an impediment to U.S. purveyors of telecommunications goods and services.

Government Procurement Practices: On April 13, 1994, the United States and the European Union reached an agreement on government procurement, most of which will be incorporated into the GATT Government Procurement Agreement that was signed on April 15, 1994. The United States-EU agreement will dramatically expand public procurement opportunities to over $100 billion on each side. Sub-national government agencies and electrical utilities on each side will for the first time guarantee equal treatment to the other side's firms on a permanent basis.

Unfortunately, the EU was not willing to include telecommunications in the agreement, leaving in place the discriminatory provisions of the Utilities Directive in that sector with respect to bids that do not meet a 50 percent EU content requirement. The United States therefore decided to keep in place its retaliation against this practice.

Other Significant Potential or Existing 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 January 1, 1996 unless agreement is reached on international standards for humane trapping. During 1994 the EU extended the deadline for the ban by one year from January 1995, citing progress toward international standards.

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 there are still no feasible alternatives.

Data Privacy: The European Commission has proposed a directive to set minimum standards in the EU concerning "protection of individuals in relation to the processing of certain personal data." Many U.S. companies are concerned that depending on how it is implemented, this directive 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 United States would like the EU to make permanent the current temporary derogations 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 protection for EU wine names in the United States.

Whiskey: During 1994 the United States and the EU concluded an agreement whereby the EU provides recognition to Bourbon Whiskey and Tennessee Whiskey as distinctive products of the United States in exchange for U.S. recognition of Scotch Whisky, Irish Whisky, Cognac, Armagnac, Calvados and Brandy de Jerez. 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 cannot be labeled a whiskey product due to insufficient aging. The U.S. Government will continue to seek to restore access for ABW into the EU market.

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 of meats for pet use. The ban has caused trade damage to U.S. exports 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 this 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 for 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 United States 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 United States. 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 cost of farm subsidies under the CAP, the EU already has strict milk production quotas.

Given the fact that the U.S. Food and Drug Administration review has established scientifically that the drug does not pose a threat to human or animal health, the United States has serious trade concerns with the EU's BST policy.

Oilseeds: A central element of the Blair House Accord is the text on oilseeds which establishes limits on oilseeds market supports and establishes a mechanism to further limit support if oilseeds production area exceeds certain limits, the separate base area (SBA) for oilseeds. The Commission has announced that it plans to exclude oilseed production by farmers under simplified crops scheme (principally for

small farmers). The United States feels strongly that all areas for which compensatory payments are received must be counted under SBA plan for oilseeds.

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 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 EU firms. After losing two GATT panel cases, the EU negotiated a framework agreement with Costa Rica, Colombia, Nicaragua, and Venezuela which allocated specific quota levels to those four countries, and which raises the possibility of further discrimination against U.S. firms. On October 17, USTR decided to initiate an investigation under Section 301 of the 1974 Trade Act of the EU banana regime.

Shipbuilding Subsidies: EU member states provide subsidies and other forms of assistance to their shipbuilding and repair industries. The European Commission sets ceilings for subsidies annually. In 1994, the ceiling was nine percent of gross investment for new ships and 4.5 percent for conversions and small vessels. The Commission has proposed extending this ceiling through December 31, 1995. On June 8, 1989 the Shipbuilders Council of America (SCA) filed a Section 301 petition, seeking elimination of subsidies and trade distorting measures for the commercial shipbuilding and repair industry. In response, USTR undertook to negotiate a multilateral agreement in the OECD to eliminate all subsidies for shipbuilding by the OECD member countries. An agreement was reached in July 1994 and is expected to be signed in December. It is scheduled to take effect January 1, 1996, following ratification by all signatories.

6. Export Subsidy Policies

Agricultural Subsidies: Export subsidies (also known as export restitutions or refunds) are widely used by the EU to offset competitive disadvantages of 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 in the order of billions of dollars. Export subsidies, however, were subject to disciplines as a result of the Uruguay Round. As that agreement is implemented, therefore, there will be progressive reductions in the value and volume of subsidized agricultural exports.

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 a hindering development of EU industry (biotechnology, data bases) and has adopted directives covering software, pharmaceuticals, and semiconductor topologies. Other IPR measures completed include a Community Trademark harmonization regime and a Community Patent Convention, but they will not be fully implemented until 1996. Additional legislation will eventually harmonize regimes covering industrial design and biotechnological inventions.

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.

8. Workers Rights

Worker rights are discussed in the individual country sections of the report. However, it is worth noting that the EU Commission has proposed to Member States that GSP beneficiaries be offered an extra margin of preference if they meet certain worker rights standards. It is not yet clear whether the proposal will be accepted by Member States.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		19,827
Total Manufacturing		91,034
Food & Kindred Products	8,667	
Chemicals and Allied Products	24,760	
Metals, Primary & Fabricated	4,620	
Machinery, except Electrical	16,455	
Electric & Electronic Equipment	5,819	
Transportation Equipment	9,392	
Other Manufacturing	21,321	
Wholesale Trade		21,362
Banking		8,719
Finance/Insurance/Real Estate		66,517
Services		10,803
Other Industries		6,326
TOTAL ALL INDUSTRIES		224,587

Prior to 1993, the European Union was known as the European Communities. The European Union comprises Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, and the United Kingdom. As of January 1, 1995, it will also include Austria, Finland and Sweden.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ARMENIA

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment: (billions of rubles)			
Real GDP (1991 prices)	7.593	6.469	6.391
Real GDP Growth (pct.)	−52.3	−14.8	−1.2
GDP (at current prices)	59.068	779.619	[2] 29.400
By Sector: (pct.)			
Agriculture	31.8	48.1	34.8
Industry	37.6	26.0	51.6
Construction	4.3	3.7	2.6
Transportation	1.3	0.6	1.5
Trade/Catering	3.3	2.0	1.5
Other	21.5	19.6	8.0
Real Per Capita GDP (1991 USD)	N/A	990	900
Labor Force (000s)	2,194	1,530	1,490
Unemployment Rate (pct.)	3.4	6.5	7.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	700
Base Interest Rate	8–10	46.5	360–210
Personal Savings Rate	9–10	N/A	60–180
Retail Inflation	728.7	930.0	900.0

Key Economic Indicators—Continued

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

	1992	1993	1994
Wholesale Inflation	N/A	990.0	900.0
Consumer Price Index	28.7	940.0	900.0
Exchange Rate (USD/NC)			
Official	1/400	1/2,020	1/350
Parallel	1/400	1/2,050	1/370
Balance of Payments and Trade: (USD millions)			
Total Exports (FOB)	74.52	108.01	129.98
Exports to U.S.	1.43	0.23	0.39
Total Imports (CIF)	141.02	205.43	254.44
Imports from U.S.[3]	1.02	1.99	2.30
Aid from U.S.[4]	45.10	93.20	81.73
Aid from Other Countries	N/A	112.50	113.00
External Public Debt	0.0	220.0	592.0
Debt Service Payments (paid)	0.0	0.0	45.0
Gold and Foreign Exch. Reserves	15.9	N/A	N/A
Trade Balance[3]	−66.500	−97.417	−124.460
Trade Balance with U.S.[3]	0.409	−1.764	−1.991

N/A—Not available.
[1] 1994 Figures are all estimates based on available data in October 1994.
[2] 1994 GDP estimate is in billions of Armenian drams.
[3] Grain, fuel and other assistance imports not included.
[4] Other U.S. assistance was available through regional programs for which a country-by-country breakdown is not available.
Sources: the Armenian Ministry of Economy, the Armenian State Statistical and Analysis Committee, and the Central Bank.

1. General Policy Framework

In 1994, the severe economic crisis in Armenia continued. Almost all Armenian industries suffered shortages of fuel, electricity and raw materials, as a result of the embargoes by Azerbaijan and Turkey, and civil unrest in Georgia. Rehabilitation of regions damaged by the 1988 earthquake has been progressing slowly. The average purchasing power of the population decreased as compared with 1993 and further limited trade opportunities. Corruption remained a problem. However, the relative stability afforded by the cease-fire which has been in place since May 1994 for the Nagorno-Karabakh conflict has enabled the government to devote more attention to the economy and invigorate its reform efforts.

The present Armenian government has demonstrated a firm commitment to turning Armenia from a centralized state with a planned economy into a democratic society with free-market economic relations. The disintegration of the ruble zone in 1993 led Armenia to introduce its national currency, the dram, which lost value rapidly at the beginning of 1994. The general economic crisis and severe shortages of energy resources during the winter period resulted in a significant decrease in industrial production. The standard of living has continued to erode, and a significant out-migration of the population has occurred. The Nagorno-Karabakh conflict had forced the government to convert many of its operating machinery manufacturers to defense production, but the cease-fire, which has been in place since May 1994, has helped stabilize the economic situation.

The government has taken measures to lift almost all trade barriers for exporters, and to reinforce the role of the Central Bank by granting it significant authority to conduct state monetary policy and license individuals or organizations engaged in banking and related activities. However, the government budget deficit in 1994 decreased markedly due to increases in grants, decreases in lending, and lower levels of current expenditure. The deficit was partially financed by borrowing from the Central Bank and commercial banks, and by credits received from Russia, other countries, and multilateral institutions. Since June 1994, the Central Bank has exercised strong control on the emission and the exchange rates policy, set higher reserve/deposits ratio requirements for banks, and started to conduct credit auctions. This, along with a slight increase in exports during the summer and a number of international credits, contributed to a sharp decrease in the rate of inflation, from 30–40 percent in January/February to 3–7 percent in September/October.

In 1992, Armenia privatized almost 80 percent of its agricultural land. In 1994, Armenia began major privatization of industry. The privatization program will be conducted in three stages during 1994–1997, and is considered to be a key step in improving the economic situation. In 1994, more than 4,700 small and medium-sized enterprises were planned to be privatized. Privatization of dwellings also took place throughout the year and is expected to end in 1995.

During 1994, the Armenian government worked hard to improve operating industries' export performance. Concentrated efforts were made to upgrade energy industry infrastructure, and to find new sources/suppliers of energy and fuel. An agreement has been reached with Russia on joint exploitation of the Metsamor nuclear power plant which may reopen in 1995. In the meantime, Armenian and Russian specialists continue to test and modernize the plant, which was closed after the 1988 earthquake for safety reasons.

Armenian business laws have gradually been readjusted to match those of western developed nations. Present Armenian law permits the establishment of almost all types of private companies existing in the West, and the country's banking system, which currently is very backward, is expected to improve in the near future. Armenia is open to foreign investors and maintains a liberal foreign trade policy.

2. Exchange Rate Policy

At present, Armenia's banking sector consists of two state banks, the Central Bank and the Savings Bank, and more than forty private commercial banks, some of which are partially controlled by the state. During 1994, in an attempt to stabilize the exchange rate and fight the hard currency black market, the Central Bank adopted a number of contradictory measures including a liberal policy toward issuing licenses for exchange operations to any businesses, no strict control on exchange rate policy, and numerous dollar interventions (though of modest value). Then, the Central Bank decided to set obligatory exchange rates for all exchanges in Armenia, and finally, to close many of the private exchanges, granting the right for exchange operations to the existing banks only, and determining exchange rates at the regular hard currency auctions. Exchange rates may vary from the Central Bank's exchange rate by up to three percent. In addition to the market rate, the Central Bank maintains a second, lower official exchange rate to be used in non-cash transactions between state enterprises.

No strict measures exist for control of hard currency outflow from Armenia. Armenian residents are currently permitted to take a maximum of USD 500 with them when they leave the country. Permission to export foreign currency in excess of USD 500 is granted only upon presentation of a document proving that the money was purchased officially, or legally obtained. In May 1994, the Central Bank ordered all Armenian resident companies to close their business accounts in foreign banks, transfer funds to Armenia, and conduct all their international transactions via Armenian resident banks.

3. Structural Policies

In 1994, U.S. commercial exports to Armenia were insignificant, and were more affected by the Azerbaijani and de facto Turkish blockade, unrest in Georgia, and the conflict in Nagorno-Karabakh than by Armenia's tax and regulatory policies. In Armenia, resident foreign business owners receive national treatment, and are generally subject to the same taxes and regulations as Armenian businessmen. Joint ventures with more than 30 percent foreign investment are granted significant tax benefits and other privileges.

Basic Armenian taxes include a profit/corporate tax (12–20 percent), a value-added tax (16.6–20 percent), an excise tax (5–70 percent) for sale of certain products, a personal income tax, and taxes paid to social security and pension funds. Amounts of duties and fees paid for export/import licenses and licenses for certain professional activities are normally dependent on the current minimum monthly wages set by the government. Though Armenian tax law describes ten more types of taxes, including a property and a land tax, relevant necessary legislation and collection mechanisms have yet to be adopted.

All exports from Armenia are duty-free. The law sets minor customs duties (5–10 percent) for imports of certain goods.

In 1992, Armenia and the United States signed a bilateral investment treaty and an Overseas Private Investment Corporation (OPIC) incentive agreement, which allows OPIC to offer political risk insurance and other programs to U.S. investors in Armenia. In 1994, Armenia adopted the Law on Foreign Investments in hope of providing a legal structure for secure investments in the country's economy.

4. Debt Management Policies

In 1992, Russia assumed responsibility for managing Armenia's share of the former Soviet Union's external debt of $561.6 million. In 1993, Armenia incurred ruble and hard currency external debt totalling $220 million. This included credits received from the World Bank, European Bank for Reconstruction and Development (EBRD), as well as from other international institutions and foreign governments. No debt service payments were made in 1993.

At the end of 1994, the Armenian external debt increased to $592 million. It included loans received from the World Bank for rehabilitation projects in the earthquake zone, irrigation projects, an EBRD loan for reconstruction of the Hrazdan natural gas-fired power generating unit, a credit for construction of a cargo terminal at Yerevan's Zvartnots airport, and a number of other foreign credits. Debt service payments by the end of 1994 are estimated at $45 million.

In December 1994, the IMF approved a $25 million IMF Systemic Transformation Facility loan to support Armenia's reform program. The World Bank is also expected to offer financing worth about $80 million during 1995, which will support reform. The United States, France, and the Netherlands pledged about $110 million in humanitarian assistance and trade credits which also will support Armenia's reform program by addressing its balance of payments needs. Earlier in 1994, Russia also agreed to extend a 110 billion ruble credit, part of which will be used for retooling the Metsamor nuclear power plant.

5. Significant Barriers to U.S. Exports

In 1994, the following factors acted as significant barriers to U.S. exports to Armenia: a partial road and rail embargo of the country, fuel shortages, lack of market information, lack of a modern telecommunications system, nonconvertibility of the Armenian dram outside of the country, inflation, a backward banking system, insufficient protection of foreign investments, the extremely low purchasing power of the population and local companies, and lack of international trade experience.

Local or foreign companies registered and operating in Armenia which receive their revenues in hard currency are required to sell 50 percent of their hard currency profits to the state for drams at the official exchange rate.

In 1994, government procurement practices were mainly based on countertrade transactions, as well as competitive bidding in certain industry sectors and programs financed by international credits.

6. Export Subsidies Policies

In 1994, export-oriented industries continued to receive government assistance. As was the case during the Soviet period, the government subsidized some state enterprises and provided resource discounts to producers in critical industries.

7. Protection of U.S. Intellectual Property

An agreement on trade relations between Armenia and the United States, signed in 1992, states that the parties shall ensure that domestic legislation provide for protection and implementation of internal property rights, including copyrights 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, trademarks and servicemarks, and protection against unfair competition.

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

Armenia plans to join the Paris Convention for the Protection of Intellectual Property, the Madrid Agreement concerning international registration of trademarks, and the Patent Cooperation Treaty.

Meanwhile, piracy of video and audio materials, books and software in the poorly controlled private sector is widespread. Items are copied locally, and some are imported from neighboring states, mainly Russia. No exports of pirated materials from Armenia to other states have been observed. Armenian state television and numerous illegal private cable channels regularly air Western video materials, many of which are unlicensed and of low quality.

8. Worker Rights

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 cannot take place. 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.

The 1992 Law on Employment prohibits forced labor. Child labor is not practiced. The statutory minimum age for employment is sixteen. The minimum wage is set by governmental decree and was increased periodically during 1994. Employees paid the minimum and even average official wages cannot support either themselves or their families and must look for sources of additional income. Most enterprises are either idle or operating at only a fraction of their capacity. Individuals 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.

AUSTRIA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	78.8	78.6	80.6
Real GDP growth (pct.)	1.6	−0.3	2.5
GDP (at current prices)	185.2	181.4	195.4
By Sector:			
Agriculture	4.5	4.1	4.4
Energy/Water	5.1	5.1	5.3
Manufacturing/Mining	46.9	43.7	47.4
Construction	13.8	13.5	14.7
Rents	N/A	N/A	N/A
Financial Services	32.7	33.9	36.6
Other Services	50.7	49.5	53.0
Public Services	24.9	25.2	27.0
Net Exports of Goods & Services	−73.3	−69.1	−73.5
Real Per Capita GDP (USD/1985 base)[2]	9,990	9,890	10,090
Labor Force (000s)	3,663	3,684	3,685
Unemployment Rate (pct.)[3]	3.6	4.3	4.3
Money and Prices: (annual percentage growth unless otherwise noted)			
Money Supply (M2)	6.2	3.2	3.0
Secondary Bond Market Rate[4]	8.39	6.74	6.50
Personal Savings Rate[4]	11.2	11.5	12.0
Wholesale Inflation	−0.2	−0.4	1.0
Consumer Price Index	4.1	3.6	3.0
Exchange Rate (AS/USD)[5]	10.99	11.63	11.40
Balance of Payments and Trade:			
Total Exports (FOB)	44.4	40.2	44.1
Exports to U.S.	1.2	1.3	1.4
Total Imports (CIF)	54.0	48.6	53.8
Imports from U.S.	2.1	2.1	2.3
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[6]	15.7	18.3	21.5
Debt Service Payments	1.8	2.5	2.2
Gold and FOREX Reserves (year-end) 16.2	18.3	N/A	
Trade Balance[7]	−9.7	−8.4	−0.9
Trade Balance with U.S.[7]	−0.9	−0.8	−10.0

N/A—Not available.
[1] Data as of October 1994 and economic forecasts.
[2] Converted at the 1985 exchange rate of AS 20.69=US$1.
[3] Unemployment rate according to OECD method.
[4] Average annual rates.
[5] There is only an official rate, no parallel rates.

[6] Figures reflect the federal government's external debt.
[7] Merchandise trade only.

1. General Policy Framework

Austria, a member of the European Free Trade Association (EFTA) and the OECD, has a highly developed economy with a high standard of living. Austria's economy 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. Austria achieved a top economic and political goal–full membership in the European Union (EU), which occurred on January 1, 1995. The Austrian Parliament ratified the EU accession agreement by an overwhelming majority on November 11, 1994.

After eleven consecutive years of growth, the Austrian economy experienced a mild recession in 1993, by contracting 0.3 percent in Austrian Schilling (AS) terms. In 1994, Austria has again entered a phase of swift recovery. The budget deficit has increased, however, from the planned three percent of GDP to 4.7 percent in 1993 as a result of the weak economy and spending increases, particularly for unemployment benefits and a second year of maternity leave. Austria financed its 1993 federal budget deficit of AS 117.1 billion (10 billion dollars) primarily through Schilling and foreign currency bonds. The Austrian National Bank does not set money supply targets, but uses interest rates, in particular the rediscount rate and the rate for open market transactions, as its main tool for maintaining the mark-schilling peg.

Formation of the European Union's single market and the transformation occurring in Central Europe have posed significant challenges for Austria, with the need for major restructuring. Austria's Grand Coalition Government of Social Democrats and Conservatives undertook measures to make the Austrian economy more liberal and open by introducing tax reforms, privatizing some state firms, and liberalizing cross-border capital movements. Austria has significantly increased trade and investment activities in Central Europe since 1989, but has also faced stiffer competition from the influx of low-priced Eastern products, and discrimination resulting from the EU's free trade agreements with those countries. In July 1994, Austria's parliament approved the Uruguay Round agreements. Austria ratified the Uruguay Round agreements in December and became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policy

Because of the Federal Republic of Germany's importance as a trading partner, the Austrian National Bank (ANB) maintains its "hard schilling policy" by adjusting money supply and interest rates to peg the schilling to the German Mark at an exchange rate of AS 7 equals DM 1. The schilling continued to appreciate vis-a-vis many other European currencies in 1993, which meant that Austria's international competitiveness deteriorated. After a small recovery in 1993, the dollar started to decline again vis-a-vis the schilling in late summer 1994. Austria's foreign exchange regime is fully liberalized. Austrian capital markets were deregulated and liberalized by the new Capital Market Law on Public Securities introduced in 1992. U.S. issuers of bonds and securities are free to place offerings in the Austrian capital market.

3. Structural Policies

Austria's participation in the European Economic Area (EEA) beginning in January 1994 and preparations for EU membership have resulted in broad structural reform. Most non-tariff barriers to merchandise trade have been removed, financial and other services have been liberalized, and cross-border capital movements and market access for foreign bonds have been fully liberalized.

Following a preliminary set of tax reform measures in 1992 and 1993 geared at the environment and tax simplification, a comprehensive tax reform became effective January 1, 1994. Main features of the reform were an increase of the general tax credit for all taxpayers, the streamlining of tax procedures, and the abolition of existing taxes such as capital tax and tax on industry and trade. To compensate for part of the revenue shortfall, the corporate tax rate was raised from 30 to 34 percent.

Other laws and regulations have been amended to open up the economy. A more liberal Business Code became effective July 1, 1993, which reduced licensing requirements. On November 1, 1993, Austria's new cartel law allowing for merger control became effective. The government enacted on July 1, 1994, a new law requiring environmental impact assessments for many projects in the waste, transportation, and energy sectors, and for large industrial projects. Austria's participation in the EEA required Austria to implement its first federal procurement law and to make its subsidy programs consistent with EU regulations.

4. Debt Management Policies

Austria's external debt management has no significant impact on U.S. trade. At the end of 1993, Austria's external Federal Government debt amounted to AS 212.9 billion (18 billion dollars), or 19.2 percent of the Government's overall debt. In terms of GDP, Austria's public external debt amounted to 10.1 percent in 1993 and is estimated to rise to 11 percent in 1994. Debt service for Austria's external federal debt amounted to AS 29.2 billion (2.5 billion dollars) in 1993 and was equal to 1.4 percent of GDP and 3.6 percent of total exports of goods and services.

5. Significant Barriers to U.S. Exports

Austria's tariff regime will change when it impliments the EU common external tariff on January 1, 1995. U.S. exporters will face higher tariffs in many sectors including computers, modems, fax machines, and other electronic equipment.

In some sectors, competition is restricted, especially 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 product, red meats, poultry, grains (except rice), fruits, vegetables, sugar, brown coal, and some weapons.

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 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. In the first half of 1994, the import mechanism was changed, but the import levy, which can reach as high as four dollars a kilogram, remains in place. The U.S. beef quota is likely to be folded into the EU-wide HQB quota. Due to the EU ban on hormones, this would effectively curtail exports of U.S. beef to Austria.

The Government of Austria generally welcomes foreign direct investment. One hundred percent foreign ownership is permitted, and there are no restrictions on repatriation of earnings, interest payments, and dividends. However, investors must sometimes deal with complicated administrative procedures to obtain approval for new operations. Environmental regulations and land use plans that differ between provinces complicate both domestic and foreign investment. For example, environmental and administrative approval of one recent large U.S. investment took nearly two years.

In July 1993, Austria implemented a highly restrictive residency law aimed at curbing illegal immigration. It applies to all residents, except those from EU countries and Switzerland, staying longer than six months. Procedures are complicated and lengthy, and it has made timely approval for American business executives, their representatives, and their families difficult.

Austria's 1993 Banking Act presents a number of obstacles for market entry of U.S. banks. Branches of non-EEA banks must be licensed, while EEA banks may operate branches on the basis of their home country licenses. For bank branches or subsidiaries from a non-EEA member country, the limits for single large loan exposures and open foreign exchange positions will shrink considerably, because the endowment capital from their parent companies can no longer be included in the capital base used for calculating these limits. Other providers of financial services, such as accountants, tax consultants, and property consultants must specifically prove their qualifications, such as university education or experience in order to 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 EEA member countries benefit from more liberal regulations with the enforcement of the EEA.

Imports of foodstuffs, plant pesticides, pharmaceuticals, 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 labeled in German. 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.

Austrian government procurement is non-discriminatory and complies with the General Agreement on Tariffs and Trade (GATT) Agreement on Government Procurement. 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. 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. With Austria's participation in the EEA, Austria enacted its first federal procurement law, 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 EU firms.

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. Preferential financing is the main form of subsidy. 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. As a result, 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 contributes to the AKB's borrowing costs. The AKB's Export Fund provides export financing programs for small and medium-sized companies with annual export sales of up to AS 100 million. Austria is a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Austrian Laws are consistent with international standards, and Austria is a member of all principal multilateral intellectual property organizations, including the World Intellectual Property Organization. Austria took an active position on intellectual property during the Uruguay Round negotiations. To adopt to EU laws, as required by the EEA agreement, Austria amended in March 1993 its copyright law to provide for the protection of computer software. The Government also implemented in April 1994 the Protection of Inventions Act and a law implementing protection certificates for medicine patents in July 1994.

A levy on imports of home video cassettes and a compulsory license for cable transmission is required under Austrian copyright law. Fifty-one percent of total revenues go to a special fund used for social and cultural projects. A draft law which was prepared by the Justice ministry to introduce compulsory licensing of videocassettes to tourist and educational institutions was postponed in September 1994. Austrian copyright law requires that the owner of intellectual property must prove the entire chain of rights up to the producer. In the case of films, this has made prosecution of cases for video piracy rare.

8. Worker Rights

a. *The Right of Association.*—Workers in Austria have the constitutional right to associate freely and the de facto right to strike. Guarantees in the Austrian Constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. Labor participates in the "Social Partnership," in which the leaders of Austria's labor, business, and agricultural institutions give their concurrence to new economic legislation and influence overall economic policy.

b. *The Right to Organize and Bargain Collectively.*—Austrian unions enjoy the right to organize and bargain collectively. The Austrian Trade Union Federation (OGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and labor chamber are democratically elected. Workers are legally entitled to elect one-third of the board of major companies.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law.

d. *Minimum Age of Employment of Children.*—The minimum legal working age is 15. The law is effectively enforced by the Labor Inspectorate of the Ministry for Social Affairs.

e. *Acceptable Conditions of Work.*—There is no legally-mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over 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.*—Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		210
Total Manufacturing		578
Food & Kindred Products	15	
Chemicals and Allied Products	25	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	54	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	60	
Wholesale Trade		453
Banking		(1)
Finance/Insurance/Real Estate		110
Services		12
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,384

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

AZERBAIJAN

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
GDP (current prices)	131	331	166
Real GDP Growth (pct.)	−35.2	−13.3	−25.6
GDP Growth by Sector: (pct.)			
Agriculture	−32.5	−29.4	−11.5
Energy/Water	N/A	N/A	−7.7
Manufacturing	−50.5	−45.6	−25.6
Construction	−8.8	−13.7	−25.0
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	131.0
Other Services	−4.8	−3.6	N/A
Government/Health/Education	N/A	N/A	N/A
Real Per Capita GDP[2]	179.0	N/A	N/A
Labor Force (000s)	3,849	2,706	2,639
Unemployment (pct.)	0.16	0.70	27.90
Money and Prices: (annual growth percentage)			
Money Supply	N/A	N/A	507
Base Interest Rate (pct.)	N/A	N/A	150
Personal Saving Rate	N/A	N/A	60–200
Retail Inflation (pct.)	1,066.6	833.0	1,742.6
Wholesale Inflation	463.4	208.7	890.0
Consumer Price Index (actual)	N/A	N/A	1,403
Exchange Rate (avg/manats:USD)	N/A	N/A	2,000

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Balance of Trade and Payments:			
Total Exports (FOB)	N/A	255.0	397.2
Exports to U.S.	N/A	3.4	0.0
Total Imports (CIF)	N/A	147.0	577.0
Imports from U.S.	N/A	10.8	4.2
Trade Balance	N/A	108.0	−179.8
Trade Balance with U.S.	N/A	7.4	4.2
Aid from U.S.[3]	N/A	N/A	25.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A
Debt Service Payments	N/A	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	N/A	N/A

N/A—Not available.
[1] January-August 1994.
[2] Figure obtained using the 1992 average annual exchange rate of 20 manat = 1 dollar.
[3] 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 State Statistics Committee of Azerbaijan.

1. General Policy Framework

Azerbaijan, a country of 7.5 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 has taken the first step toward developing these resources by signing a production sharing agreement with a consortium of western oil firms, including several U.S. companies, in September 1994. Azerbaijan has an array of heavy industries, particularly oil refining, petrochemicals, oil field equipment, and air conditioners, that will require foreign investment to make them viable in a world economy. 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 recent governments have been preoccupied with issues of survival and instability arising from the conflict in Nagorno-Karabakh, a break-away, formerly autonomous province of Azerbaijan inhabited mostly by ethnic Armenians. Azerbaijan has been unable to resolve the conflict and approximately 20 percent of its territory has been occupied by Nagorno-Karabakh Armenian forces. President Heydar Aliyev, a former member of the Soviet Union's Politburo and former communist ruler of Azerbaijan in the 1970s, has announced his government's commitment to democratic and market-based reforms, though he favors a process of gradual reform rather than economic shock therapy. First Deputy Prime Minister Quliyev is responsible for economic performance and reform, while four deputy prime ministers in the Cabinet of Ministers have responsibility for directing different economic ministries, though all answer ultimately to President Aliyev. Ministerial and sub-ministerial changes are taking place following an internal political crisis in October 1994 which resulted in the dismissal of the Prime Minister. Some of these changes will affect economic decision-makers.

The economy remains dominated by large state enterprises and, in the agricultural sector, by large state and cooperative farms, all of whose production is theoretically based on state orders prepared by the government ministries. The national parliament passed a privatization law in August 1994, but the process has languished as no implementing legislation has yet been approved. Private business has begun to appear, primarily in the retail sector 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 about 25 percent in the first nine months of 1994 compared to the same period in 1993. The government, continuing its subsidies of key commodities, allowed budget deficits to remain above ten percent of GDP in the first nine months of 1994. The government does not yet have a realistic plan for financing this deficit, and will probably continue to rely on the inflationary policy of issuing more currency.

Azerbaijan declared its currency, the manat, sole legal tender January 1, 1994, and has allowed the manat to float against major currencies since April 1994. Foreign currency exchanges have been introduced to help make the manat convertible, but are still operating at very low volumes.

Although Azerbaijan became an active member of the Commonwealth of Independent States (CIS) in 1993, it has not signed the proposed ruble zone agreement. Joining the CIS eliminated tariff and other restrictions on Azerbaijan's critical trade with Russia, Ukraine, and other CIS countries, but commercial ties continue to slump due to payment problems on Azerbaijan's part and disagreements over Azerbaijan's debts with some CIS members, especially Russia. The conflict in Chechenya has disrupted Azerbaijan's main trade route with Russia, and Moscow has imposed restrictions on Azerbaijani use of the Volga-Don Canal, the only water route linking Baku to the outside world.

2. Exchange Rate Policy

The Azerbaijani manat has been allowed to float against major currencies, and has suffered a sharp, steady devaluation as a result of Baku's expansionary fiscal and monetary policies. The manat has lost more than 90 percent of its value. In October 1994, the rate reached 2,500 manats to the dollar. The government imposes several controls on foreign exchange, including a surrender requirement and a limit on the amount of foreign currency that can be taken out of the country.

3. Structural Policies

Structural change is coming to Azerbaijan, albeit slowly and more as a result of the breakdown of the centrally planned system rather than through a government reform plan.

Pricing Policies: Several key commodities, including bread, natural gas and gasoline, remain under price controls. While the government raises these controlled prices periodically, they remain artificially low, and shortages of these goods occur, along with corruption and black market activity. In addition, nearly all goods are produced by state enterprise monopolies, and the government continues to set prices it will pay to these enterprises based on fixed cost-plus formulas.

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 for selected goods; 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 such as refined oil products, cotton, and wine. Potential buyers of such commodities must pay for an export license or cooperate with an Azerbaijani partner that has obtained a general license for that commodity.

4. Debt Management Policies

In September 1993, Azerbaijan signed a "zero option agreement" with Russia under which Russia will pay Azerbaijan's share of the external debt of the former Soviet Union in return for Azerbaijan's share of the former Soviet Union's assets.

The Azerbaijani budget deficit remains at high levels, amounting to over 10 percent of GDP in 1994. Since Russia has stopped financing Azerbaijani debt outlays with rubles, Azerbaijani officials increased contacts with the International Monetary Fund (IMF), World Bank, and the European Bank for Reconstruction and Development (EBRD). However, borrowing programs will not be granted until Azerbaijan tightens its policy to meet generally accepted financial criteria, which has proposed to do by the end of 1994. Azerbaijan has no borrowing relationship with commercial banks, and in the short term is likely to finance budget shortfalls through printing manats and issuing credit through the National Bank.

5. Significant Barriers to U.S. Exports

Corporate 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 oil-based products, cotton, oil field equipment, diesel fuel, chemical products of organic synthesis, silk, waste metals and tobacco. Selling goods or services to Azerbaijan almost always entails receiving barter goods in payment.

Lack of laws and institutions which regulate fairness in trade, and poor infrastructure create barriers. Azerbaijan has no bankruptcy or commercial transactions laws. Only some banks have access to foreign exchange. The customs service and

airport officials lack professional training and attitudes. Entry and exit regulations at the airport change frequently and without warning. Office space is at a premium and costly, telecommunications are not reliable and experience with western business practices is rare.

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 up to U.S. or European industry standards. There are a few Western companies here with joint ventures which have brought or are bringing products and facilities up to American or European standards. It is assumed that with the recent signing of the oil contract, foreign companies and banks will be more likely to move forward on planned projects.

Trademarks and Logos: There is 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.

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 granted through concessionary agreements with the approval of the Council of Ministers usually require parliamentary approval as well. There are restrictions on the number of foreign personnel that an enterprise may hire. At present, both Azeris and foreigners may lease land but not own it outright. The exception is the .05 percent of land owned by private farmers.

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 Azerbaijan. The United States has proposed a bilateral investment protection treaty, which would establish an open investment legal regime for investments between the two countries. The Azerbaijani government has not yet accepted the U.S. offer to negotiate this treaty.

6. Export Subsidies Policies

The government continues to subsidize production at state enterprises to maintain production levels and employment (although most factories work below capacity). 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 pirated films.

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 trade agreement of April 1993 contains commitments on protection of intellectual property. This agreement has not been ratified by the Azerbaijani parliament.

8. Worker Rights

a. *The Right of Association.*—Azerbaijani labor unions continue to be highly dependent upon the government, but are free from federations, and participate in international bodies. Azerbaijan is a member of the ILO (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 (5,000 rubles or about $4 per month) were granted to 21,567 people between September 1992 and August 1993, although 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 have dramatically improved.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[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/Insurance/Real Estate		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.

BELARUS

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP Growth [2]	−10	−9	−24
Labor Force (000s)	4,887.4	4,823.7	4,608.0
Unemployment (pct.)	0.5	1.4	2.0
Money and Prices (annual percentage growth):			
Money Supply (bil. rubles)	N/A	3,748	3,470
Base Interest Rate	N/A	310	310
Retail Inflation	693.5	517.1	283.7
Wholesale Inflation	1,627.5	936.8	327.9
Exchange Rate	341	3,160	[3] 2,241
Trade and Balance of Payments: (USD millions)			
Total Exports (FOB)	N/A	2,941.0	2,556.0
Exports to U.S.	43.0	39.1	37.5
Total Imports (CIF) /4	N/A	3,216.0	3,193.0
Imports from U.S.	91.9	87.3	37.8
Trade Balance	N/A	−275.0	−636.0

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Trade Balance with U.S.	−48.6	−48.2	−0.26
Aid from U.S.	38.6	60.0	N/A
External Public Debt /5	N/A	890	1,652
Debt Service Payments (paid)	N/A	2	108

N/A—Not available.
[1] January-September 1994.
[2] National Bank base rate for loans to commercial banks.
[3] Average exchange rate through September 1, taking into account the August 20 denomination. Exchange rate on December 1 was 9,100 Belarusian rubles:$1.00.
[4] Merchandise only–does not include energy imports.
[5] Does not include over $450 million debt to Russia for energy.

1. General Policy Framework

Belarus formally declared independence on July 27, 1991. With Russia and Ukraine, Belarus was a founding member of the Commonwealth of Independent States (CIS) in December 1991. In March 1994, the parliament passed Belarus' first post-Soviet constitution, building the framework for a government with a strong executive branch. In July 1994, Alexander Lukashenko was elected president of Belarus. Economic policy is directed by the president's administration through the Cabinet of Ministers, led by Prime Minister Chigir.

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's fear of possible social unrest caused by decreased living standards and unemployment. In October, the parliament approved the president's "plan of urgent measures" for the Belarusian economy. Like the plan for 1993 and prior years, October's plan calls for increased reliance on market mechanisms, but maintains central control over key market sectors, including agriculture. The plan has produced some encouraging results thus far, including removal of energy subsidies to state-owned enterprises, and cutting off electricity and gas supplies to enterprises which have not paid their share of Belarus' arrears to Russia for energy, which now total over $450 million. The Government of Belarus recently came to agreement with the IMF on a standby arrangement, to be financed with a second Structural Transformation Facility (STF) loan and an upper credit tranche. Prior actions for this program included significant food price liberalization. Unfortunately, the government delayed the price liberalization and damaged the credibility of its new reform drive. A pledging session for the program did not yield sufficient donor country support and IMF Board consideration of the program was delayed from the end of December into January 1995 while the IMF tries to adjust the program and seek additional donor support to close the balance of payments gap.

Belarus has a diversified economy, which during the Soviet-era gave Belarus one of the highest standards of living in the former Soviet Union. Belarus can meet most of its own basic food needs, with the exception of feed grains, sugar and vegetable oil. The agricultural sector accounts for an estimated 26 percent of net material product (NMP) and relies heavily on livestock, which contributes about 60 percent of the sector's 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 continues to experience 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 more than 40 percent of Belarus' output. As prices for raw materials approach world market levels, thus causing demand to slacken, Belarus' industrial production continues to fall. Despite past reform efforts, the military complex is in need of vast restructuring which will require investment as well as changes in operations and ownership.

The economy is energy-intensive due to traditionally low energy prices. More than 90 percent of primary energy consumption is met by imports. Belarus' arrears for energy supplies from Russia, its primary supplier, now exceed $450 million. Belarus also faces a number of environmental problems related to the Chernobyl accident and its heavy industrial base. The Government of Belarus claims that over 20 percent of its budget goes to Chernobyl-related activities. Agricultural activity is still restricted in many areas damaged by Chernobyl.

Fiscal and Monetary Policies: The Government of Belarus allowed itself a budget deficit of no more than six percent of government expenditures. The Central Bank is authorized by law to issue credits up to four percent of gross domestic product. The minimum wage was raised three times in the first three quarters of 1994. Since all other government wages, pensions and taxes are pegged to the minimum wage, slight changes have far-reaching impact.

The National Bank of Belarus (NBB) is a weak financial institution hampered by a lack of technical and financial expertise, as well as by political interference. However, National Bank Chairman Bogdankevich, though not immune to political influence, is considered to be a positive voice for reform in Belarus. The main instruments of monetary control in Belarus are the volume and cost of NBB lending to banks, reserve requirements, and restrictions on interest rates. Establishing monetary control is hindered by the practice of monetizing the fiscal deficit and the past practice of cancelling outright the outstanding debts to 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.

Minimal regulation of the banking industry in this credit-starved republic has led to a small bank boom. Forty-four commercial banks currently exist in Belarus, one with as many as 20 branch offices. New regulations have been introduced that are intended to institute new minimum reserve requirements and encourage saving. Although the National Bank no longer cancels outright loans to state enterprises, it still monetizes the government deficit, thwarting efforts at monetary control.

Belarus joined the International Monetary Fund (IMF), World Bank and the European Bank for Reconstruction and Development (EBRD) in 1992. In late 1994, Belarus reached agreement with the IMF on a program of market reforms, making the country eligible for a stabilization loan of $100 million, as well as a stand-by credit of $180 million. The agreement calls for a strict timetable for moving toward a market economy. The U.S. government and the EBRD have capitalized investment funds at nearly $200 million targeted at small and medium-sized businesses. Belarus was granted GATT observer status in 1992.

2. Exchange Rate Policy

In October of 1992, Belarus created the "Belarusian rubel" to supplement increasingly scarce cash Soviet rubles in circulation. When Russia withdrew Soviet rubles in July 1993, the "rubel" became the de facto national currency. After continued attempts at forming a monetary union with Russia failed to produce acceptable terms, Belarus gave up on the effort and declared the rubel the national currency. All government obligations must now, by law, be paid in the national currency. Belarus has announced that, beginning January 1, 1995, all retail trade must be conducted in Belarusian rubels. Licenses for continued trade in hard currency are to be strictly controlled.

In August, after losing over 90 percent of its value against the Russian ruble in the two years since its introduction, the Government of Belarus revalued the rubel to one-tenth of its former value, reducing all denominations of bank notes, non-cash deposits and prices by one zero. However, in the four months following this "currency reform," inflation remains high and the rubel has again lost over two-thirds of its value.

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 process of privatization continues to move slowly forward in Belarus. The Minister of Privatization claims that of all state-owned enterprises eligible for privatization, ten percent are now in private hands. A presidential decree on privatization is expected to be issued by the end of 1994.

4. Significant Barriers to U.S. Exports

The tax code for foreign-owned businesses has not changed significantly in the last three years. Despite more than twenty separate taxes on foreign-owned businesses, the Government of Belarus has instituted legislation to attract foreign investment. Joint ventures with more than 30 percent foreign ownership are entitled to export products without a license and pay no tax on profits for three years after the company earns its first profits, if products are manufactured by joint ventures 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 (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.

Belarusian law forbids 100 percent ownership by foreigners of property in Belarus. To attract some foreign investors, however, Belarus allows foreigners to obtain property in Belarus under a 99-year lease. The government has also indicated that the president might make special exception to allow foreigners 100 percent ownership.

To date, there is no law on currency regulation in Belarus, although a new law on the use of hard currency is due to go into force in January 1995. Belarus is still operating under a decree issued by the Supreme Soviet at the end of 1992 entitled "Temporary Rules for Hard Currency Regulation and the Conducting of Operations with Hard Currency on the Territory of the Republic of Belarus." Under this decree, hard currency earnings from the export of products made by an enterprise with at least 30 percent foreign investment remain at the disposal of 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.

The United States is working on several levels to increase trade and investment in Belarus. In the spring of 1993, the U.S.-Belarus trade agreement, providing reciprocal most-favored-nation status, went into force. President Clinton signed the Bilateral Investment Treaty during his visit to Belarus in January 1994. This treaty, when ratified by the United States (Belarus has already ratified it), will provide a legal framework to stimulate investment. A bilateral tax treaty intended to provide relief to businesses from double taxation is also being developed. 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 also has active programs in Belarus. Once ratified, the U.S.-Belarus bilateral investment treaty will provide substantial assurances to U.S. investments.

5. Export Subsidies Policies

One of the legacies of a centrally-planned economy is government subsidization of state-owned enterprises. In Belarus these subsidies are aimed at maintaining production and employment rather than being specifically targeted at supporting exports.

6. Protection of U.S. Intellectual Property

After the breakup of the Soviet Union, Belarus acceded to the World Intellectual Property Organization (WIPO). Piracy of printed material, video and sound recordings, while prohibited by law, continues. The U.S.-Belarus trade agreement includes some provisions on the protection of intellectual property.

7. Worker Rights

The independent trade union movement is developing very slowly. The largest trade union in Belarus, the Federation of Trade Unions of Belarus, consisting of five million members, is not considered an independent organization because it still follows government directives. However, as Belarus progresses toward a market economy, unions are becoming more vocal in demanding social protections formally provided under the Soviet system.

a. *The Right of Association.*—The new Belarusian constitution, passed in March 1994, 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.*—The Belarusian constitution 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.

c. *Prohibition of Forced or Compulsory Labor.*—The Belarusian constitution explicitly prohibits forced or compulsory labor. Belarus has ratified one of the International Labour Organization's forced labor conventions. However, penal production of manufactured goods exists.

d. *Minimum Age for Employment of Children.*—Existing law establishes 16 to be the minimum age for employment. Exceptions are allowed in cases where a family's primary wage earner is incapacitated.

e. *Acceptable Conditions of Work.*—The Supreme Soviet, along with the Cabinet 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 40 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. 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 Ecomomic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	176.9	162.1	172.9
Real GDP Growth (pct.)	1.4	−1.3	1.8
GDP (at current prices)[2]	219.0	206.4	226.3
By Sector:			
Agriculture	3.7	N/A	N/A
Energy/Water	9.6	N/A	N/A
Manufacturing	44.5	N/A	N/A
Construction	12.7	N/A	N/A
Services	119.1	N/A	N/A
Government/Health/Education	29.3	N/A	N/A
Real Per Capita GDP (1985 prices)	17,711	16,210	17,170
Labor Force (000s)	4,237	4,261	4,279
Unemployment Rate (pct.)	9.4	10.5	10.9
Money and Prices:			
Money Supply (M1)	40.4	40.7	N/A
Base Interest Rate[3]	8.7	7.2	6.4
Personal Saving Rate	19.5	20.6	20.2
Retail Inflation	2.1	2.6	1.8
Wholesale Inflation	−1.8	0.2	1.5
Consumer Price Index	2.4	2.7	2.5
Exchange Rate (BF/USD)	32.1	34.6	32.8
Balance of Payments and Trade:			
Total Exports (FOB)	123.5	111.3	115.6
Exports to U.S.	4.41	4.90	N/A
Total Imports (CIF)[4]	125.2	114.7	117.5
Imports from U.S.	5.47	5.21	N/A
External Public Debt	31.5	43.9	44.65
Gold and Foreign Exch. Reserves	11.4	13.9	18.1
Trade Balance[4]	−1.7	−3.4	−1.9
Trade Balance with U.S.	−1.06	−0.3	N/A

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates.
[4] Merchandise trade.

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, the country depends heavily on world trade. About 75 percent of its trade takes place with other European Union (EU) members. Belgium ranked as the ninth-largest trading country in the world in 1993. The country's service sector generates more than 70 percent of GDP, compared with 25 percent for industry and two percent for agriculture. Belgium imports many basic or intermediate goods, adds value, and then exports final products.

Belgium exports twice as much per capita as Germany and five times as much as Japan. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity for all OECD countries after Japan.

Globally, Belgium ranks as the United States' 10th-largest export market worldwide and the fifth-largest in Western Europe. Belgium is the 13th largest target for U.S. investment in the world. U.S. trade and investment prospects are positive, and many opportunities exist for U.S. exporters and investors. The Belgian government recently undertook steps to improve the foreign investment climate even more.

Of all European Union members, Belgium's 1993 economic recession was the worst after Germany's. Part of the 1993 recession came about because the government instituted a variety of budget cuts and revenue measures totalling about 6.6 percent of GDP in 1992 and 1993 to try to meet economic performance targets under the EU's proposed Economic and Monetary Union (EMU). Due to the highest net public sector debt load among OECD countries (127 percent of GDP), Belgium faces tight fiscal policy for many years to come.

Belgium, with its small open economy, is very vulnerable to declines in economic activity in Germany, France and the Netherlands, which together account for more than half of Belgium's exports. Belgian unemployment currently stands at more than 10 percent of the workforce (by EU and OECD standardized definitions), an increase of more than 15 percent in one year. The country's competitiveness also deteriorated in 1993. Per capita wage costs increased by 4.2 percent, against 3.6 percent for the country's seven most important trading partners.

For 1994, the extent of economic recovery in Belgium depends in large part on economic development results in neighboring countries, as well as the degree of Belgian monetary and fiscal tightness. Most recent GDP growth forecasts are in the neighborhood of 2.3 percent in 1994 and 2.8 percent in 1995.

Belgium completed domestic ratification of the Uruguay Round agreement and became a founding member of the WTO on January 1, 1995.

When the present coalition government under Prime Minister Dehaene came to power in March 1992, it set three budgetary targets. First, federal expenditures net of debt payments should not grow faster than the inflation rate. Second, the growth rate of fiscal revenues should at least match the growth rate of nominal GDP. Third, the deficit in the social security budget should be eliminated. The Government has managed to meet the two first criteria, but has not yet balanced the social security budget, mainly due to substantial cost overruns in health insurance and unemployment benefits. In 1993, the Government of Belgium's (GOB) public sector budget deficit equaled 7.2 percent of GDP, up 0.3 percentage points from the 1992 level. According to the Government's own convergence plan for possible membership in the European Economic and Monetary Union (EMU), the 1993 target was 5.8 percent. For 1994, it is 4.8 percent. Despite weak fiscal results to date, the Belgian Government since March 1992 has implemented budgetary austerity measures worth more than $16.2 billion, or about 6.6 percent of GDP. Even though 75 percent of these measures were revenue increases rather than expenditure cuts, they had the advantage of being mostly structural in nature, as opposed to one-time measures. As a consequence, the Government still expects to meet the three percent of GDP annual budget deficit target in 1996, one of the Maastricht Treaty requirements for possible full EMU membership. Since Belgium has virtually no chance of reaching in this decade the 60 percent of GDP public debt target under the Maastricht Treaty, the Belgian public sector must come close to the annual deficit target to obtain a derogation on the debt target.

2. Exchange Rate Policy

Belgian monetary policy basically shadows German interest rates as closely as possible in order to keep the Belgian Franc (BF) close to a central parity with the Deutsche Mark (DM). In June 1990, the National Bank of Belgium (NBB) decided to keep the BF within a plus or minus 0.3 percent band around the central parity of the DM, a much narrower band than what the European Exchange Rate Mechanism (ERM) required. That policy proved successful during the next three years; Belgian inflation ranked among the lowest in the EU, and renewed credibility of the BF allowed the Government to finance its debt at good rates. As part of the near collapse of the entire ERM on July 30, 1993, this "strong franc" policy came under serious attack both before and after the widening of the ERM fluctuation bands on August 2, 1993. Despite the NBB's intention to bring the BF back within the narrow ERM band as soon as possible, markets began to focus more on Belgium's imbalances (mainly the widening budget deficit gap, the huge public debt and the depth of the recession). Serious pressures developed against the BF in the summer and

fall of 1993. Consequently, the NBB and Government used high short-term interest rates, jawboning and currency market interventions to support the BF.

After the franc slipped by about seven percent against the central parity rate with the Mark, several factors came to its rescue, apart from high interest rates and currency market intervention. The German Bundesbank lowered its key interest rates at the end of October 1993, relieving the pressure in the ERM. The ensuing appreciation of the dollar against the DM further eased the pressure on the BF. Subsequently, the NBB lowered its interest rates by more than 100 basis points within two weeks. Through the combination of the above factors, the BF by the end of 1993 had returned close to the central parity with the DM, and has stayed there since then, despite gradual short-term interest rate cuts.

3. Structural Policies

In practice, freedom of trade in 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.

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 mainly 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 community 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 macro objectives such as promoting innovation, research and development, energy saving, exports, and most of all, employment.

Investment: Belgium maintains an excellent investment climate for U.S. companies. U.S. investment in Belgium–almost $11 billion–ranks 13th 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 polished 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 deterioriation 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. Since then, the government has responded positively to these points and promised to take the necessary measures to remedy these problems.

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 the EU average, both

in relation to GDP 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 push the country into a net creditor position. Only about 15 percent of the Belgian government's overall debt is owed to foreign creditors. Moody's top Aa1 rating of the country's bond issues in foreign currency fully reflects Belgium's integrated position in the 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 $ 500 million 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

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 other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly.

Some barriers to services and commodity trade still exist, however, including:

Telecommunications: The Belgian telecommunications market, with its state monopoly of the basic telephone network, has shown recently a greater degree of openness than in the past. A second cellular license will be issued before the end of 1994, the yellow pages have been opened up to competition (albeit both under EU pressure) and the search is on for a strategic partner for Belgacom, the public telephone operator. However, foreign suppliers of equipment still complain that they face an unequal battle with the 'national champions'.

Ecotaxes: The Belgian government has passed a series of ecotaxes, in order to redirect consumer buying patterns away from environmentally damaging materials (as defined by the green parties, which supported the government coalition's efforts to revise the constitution and create a federal state). These taxes will possibly raise costs for U.S. exporters, since U.S. companies selling into the Belgian market must adapt to the phased-in implementation of these taxes, which may add more costs to U.S. producers forced to adapt worldwide products to varying EU environmental standards.

Belgian Subsidies to Airbus Participants: Since the inception of the Airbus project in Europe, Belgian companies have participated as subcontractors to the main German and French producers of the aircraft. In the past, Belgian public production supports for Airbus contractors have included subsidies for both recurring and nonrecurring costs. Cash advances were halted in 1991, though support continues today in the form of a guaranteed exchange rate designed to compensate Belgian contractors for the decline in the BF/dollar rate. The precise level of the subsidy depends on the equipment being supplied, the Airbus aircraft type, and the degree of Belgian federal and regional government participation. Between 1978 and 1991, Belgian federal and regional authorities contributed an estimated $167 million to Belgian Airbus component manufacturers participating in the Belairbus consortium. In the period 1992–1998, Belgian governments have pledged $392 million in total support. While federal supports are scheduled to end, regional government subsidies are like-

ly to continue and even rise in the future, despite federal government commitments to control them. This, of course, depends on Belgian industry receiving continued work from the Airbus consortium.

Regionalization: The devolution of various central government powers to the three regions of Belgium is accelerating. The regions already have considerable influence over educational and environmental matters and control most of the subsidies and investment incentives given to both domestic and foreign business. At some point, it is likely that the regions will press for taxing authority to raise revenues, in order to meet their added responsibilities. There is inconsistent enforcement of environment regulations among the regions, which may lead to a less favorable investment climate for U.S. business in some parts of the country. The regions have promised to take steps to avoid nontransparency and conflicting jurisdictions.

Opening the Retail Service Sector to U.S. Firms: During 1993 and 1994, the large U.S. retail chain, Toys R Us, has experienced considerable difficulty in obtaining permits to open three outlets in Belgium. Current legislation is designed to protect the small shopkeeper in Belgium and has a decidedly nontransparent and protectionist bent. While Belgian retailers also suffer from the same restrictions, their existing sites give them strong market share and power in local markets. Toys R Us officials want to continue to open outlets in Belgium and are concerned that strict enforcement of the retail law will prevent them from doing so.

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. The number of military contracts is dwindling, however, as Belgian military spending declines.

Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which required high percentages of European 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. In 1993 the Francophone community 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. Similar difficulties await NBC and Viacom, when they try to enter the Flemish market in early 1995 with their TV4 channel.

6. Export Subsidies Policies

There are no 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 in export sectors, and they may come close to the definition of a subsidy in the case of a company engaged in exporting.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, an estimated 25 percent of Belgium's video cassette and compact disc markets are composed of pirated cassettes.

On June 30, 1994, the Belgian Senate gave its final approval of the revised Belgian copyright law. The old law dated from 1886. National treatment standards were introduced in the blank tape levy provisions of the new law, replacing reciprocity standards. Problems regarding first fixation and non-assignability were also resolved. The final law states that authors will receive national treatment, and allows for sufficient manoeuvrability in neighbouring rights. It is estimated that U.S. authors and producers will receive some $7 million annually from the proceeds of the blank tape levy in Belgium.

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.*—Belgium has a long tradition of democratic trade unions. Workers have the right to associate freely, hold free elections and strike. Unions striking or protesting government policies or actions are free from harassment and persecution. Anti-union actions before a union is legally registered are effectively prohibited. Labor unions are independent of the government but have important informal links with and influence on several major political parties. Belgian unions are free to affiliate with and are affiliated with the major international labor bodies. In the provision of essential public services, public employees' right to strike is implicitly recognized. Public employees may and often do strike. Laws and regulations, effectively enforced, prohibit retribution against strikers and union leaders.

b. *The Right To Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized and exercised freely. Management and unions negotiate a nationwide collective bargaining agreement, which establishes the framework for negotiations at plant and branch levels. The right to due process and judicial review are guaranteed for all protected union activity. Belgian law prohibits discrimination against union members and organizers and provides special protection against termination of contracts of shop stewards and members of workers' councils and of health and safety committees. Employers found guilty of such discrimination are required to reinstate workers. Effective mechanisms exist for adjudicating disputes between labor and management. Belgium maintains a system of labor tribunals and regular courts which hear disputes arising from labor contracts, collective bargaining agreements, and other labor matters.

Belgium has no export processing zones.

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 schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 can participate in part-time work/part-time study programs. Students can also sign summer labor contracts of up to 30 days. During that period, they can work the same number of hours as adults. The labor courts effectively monitor compliance with nationals laws and standards.

e. *Acceptable Conditions of Work.*—The current monthly national minimum wage rate for workers age 22 and over is 42,469 Belgian francs, effective as of June 1994. Based on the exchange rate of October 19, 1994, this is equivalent to $ 1,374. Workers between 18 and 21 can be paid less than minimum wage. 18-year-olds can be paid 82 percent of the national minimum wage, 19-year-olds 88 percent, and 20-year-olds 94 percent. Minimum wage rates in the private sector are established by nation-wide labor/management negotiations. In the public sector, the minimum wage is determined in negotiations between the government and the public service unions. Regular cost of living adjustments are made during the course of each year to the basic minimum wage rate. The Ministry of Labor effectively enforces minimum-wage laws. A maximum 40-hour workweek which provides at least one 24-hour rest period is mandated by law, although many collective bargaining agreements have set shorter work weeks. The law requires overtime payment for hours worked in excess of a regular workweek. Excessive compulsory overtime is prohibited. These laws are enforced effectively. Comprehensive health and safety legislation is supplemented by collective bargaining agreements on safety issues. Workers have the right to remove themselves from situations which endanger their health or safety without jeopardy to their continued employment, and Belgian law protects workers who file complaints about such situations. The Labor Ministry implements health and safety legislation through a team of inspectors and determines whether workers qualify 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. The Ministry of Labor effectively monitors compliance with national health and safety 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 aeas. 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		249
Total Manufacturing		5,557
Food & Kindred Products	411	
Chemicals and Allied Products	3,415	
Metals, Primary & Fabricated	240	
Machinery, except Electrical	56	
Electric & Electronic Equipment	215	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		2,056
Banking		97
Finance/Insurance/Real Estate		2,794
Services		708
Other Industries		91
TOTAL ALL INDUSTRIES		11,552

[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 with very little economic activity beyond smuggling and distribution of humanitarian supplies. U.S. Embassy estimates place the remaining industrial activity, which primarily supports the war effort, at five percent of the 1991 level. In a region which once boasted world-class resorts, there are now destroyed factories and burnt-out villages. The Bosnian Serbs, who are continuing their policy of "ethnic cleansing," have displaced or killed hundreds of thousands of residents.

Bosnia-Herzegovina receives its natural gas by pipeline from Russia via Hungary and Serbia. Adequate gas supplies were restored to Sarajevo in February 1994. The situation remains unstable, however, due to maintenance problems, war damage, and Bosnian Serb control of areas through which the pipeline passes. Electric energy supplies for greater Sarajevo fell from a pre-war level of 250 MW to about 50 MW in 1993. With international assistance, the daily electric energy supply in Sarajevo averaged 68 MW by mid-1994.

Bad weather, fighting, and Bosnian Serb blockades often block supply lines into Bosnia-Herzegovina, Sarajevo, and the eastern enclaves of Gorazde, Zepa, and Srebrenica. Sarajevo and the eastern enclaves remain under siege and are currently experiencing shortages of food, water, electricity, fuel, and many other basic neccesities. Humanitarian aid has been intermittent and insufficient to meet full requirements. Bosnian Serb sniper activity regularly halts use of the Sarajevo airport. In the winter months, when the need is greatest, land supply routes become impassable and airports often close.

The economic outlook for Bosnia-Herzegovina remains 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. No financial reserves exist with which reconstruction could begin. In March 1994, the U.S. and United Kingdom launched a joint initiative to restore essential public services to Sarajevo. While this has resulted in some success, it will take many years for Bosnia-Herzegovina to recover from the current crisis, and massive donor support will be needed to continue the process.

BULGARIA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1993 prices)[G,E]	10,773	10,557	10,409
GDP (at current prices)[I,E]	8,478	10,557	20,859
Real GDP Growth Rate (pct.)[C]	−5.6	−4.2	−1.4
Real GDP by Sector:[G,E,I]			
Industry	5,063	3,647	3,539
Agriculture	1,120	804	1,145
Trade/Services	4,632	4,164	5,724
Per Capita Income (USD)[G,E 2]	1,209	1,195	1,181
Labor Force (000s)[G,E]	3,796	3,787	3,827
Unemployment Rate (pct.)[G,E]	15.0	15.8	15.5
Money and Prices:			
Money Supply (M1:bil. lev)[G]	37.8	36.9	55.0
Commercial Interest Rate (pct.)[G]	61.1	58.2	[3] 77.9
Gross Domestic Savings Rate (pct.)[I,E]	2.1	2.1	N/A
Gross Domestic Investment	1,739	1,669	N/A
Consumer Price Index (Dec. 1992 equals 100)[I,E]	100	164	342
Inflation (pct.) (end-of-period/Dec-Dec)[4]	79.4	63.9	110.0
Producer Price Index	N/A	N/A	N/A
Exchange Rate (year-end: leva/$)			
Official[5]	24.5	32.7	80.0
Parallel	25.5	34.0	83.0
Balance of Trade and Payments: ($millions, current)[G,E,I 5]			
Total Exports (FOB)	5,090	3,640	3,160
Exports to U.S.	85.3	115.3	163.0
Total Imports (FOB)	4,610	4,330	2,820
Imports from U.S.	78.9	158.7	106.0
Trade Balance	480	−690	340
Trade Balance with U.S.	6.4	−43.4	57.0
Aid from U.S. (fiscal yr.)	40	46	35
Aid from Other Countries[6]	600	154	1,097
External Public Debt ($ bil.)	11.9	12.5	8.7
Annual Debt Service.			
Scheduled	2,918	2,211	850
Paid	193	88.8	[7] 850
Gold and Foreign Exchange.			
Reserves ($ bil.)	1.7	1.5	1.2

N/A—Not available.
[E] U.S. Embassy estimate.
[G] Government of Bulgaria.
[I] International financial institutions.
[C] U.S. Department of Commerce.
[1] 1994 figures are estimates for year-end.
[2] Per capita incomes are calculated at following exchange rates: 1992 24.5 leva:dollar; 1993 32.7 leva:dollar; and 1994 80 leva:dollar.
[3] BNB basic (lombard) refinancing rate (period average).
[4] U.S. Department of Commerce figures.
[5] Rate depreciated from 32.7:1 to 65:1 from January to November 1993.
[6] Includes international financial institutions.
[7] 1994 estimate based on first six months data.

1. General Policy Framework

Bulgaria's transition to a market economy continued slowly during 1994. The nonparty cabinet of centrist economist Lyuben Berov successfully concluded Bulgaria's drawn-out negotiations with commercial creditors and the IMF. Structural reforms remained stymied and inflation accelerated, in spite of continued restrictive

fiscal and monetary policies. This, along with the collapse of Bulgaria's COMECON trade (80 percent of the pre–1989 total), the global recession, and United Nations sanctions against Iraq and Serbia resulted in a prolonged economic downturn, which finally may have bottomed out in 1994. After several years of decline, national output achieved zero growth and production in several sectors increased. Unemployment also declined during the year. Prime Minister Berov's resignation in September opened the way for pre-term parliamentary elections on December 18. The Bulgarian Socialist Party won a narrow majority in those elections. Pending the elections, a caretaker government was appointed by President Zhelev on October 17.

The Central Bank (BNB) sought to bring inflation down from a 3.9 percent to a three percent monthly rate by year end 1994, using a normal range of policy instruments. However, inflation accelerated from 63.7 percent in 1993 to a projected 110 percent in 1994. The rapid depreciation of the Bulgarian lev in foreign exchange markets early in 1994 significantly boosted the lev value of foreign-currency accounts, thereby increasing the money supply. To control the fall of the lev, the BNB significantly raised interest rates. Later in the year there was concern that the money supply was being dangerously increased by BNB credit for several troubled state banks. Despite stagnation in the standard of living over 1994, exports of U.S. consumer goods to Bulgaria have risen given the relative weakness of the dollar versus european convertible currencies.

During most of 1994, the government kept its budget deficit within the 6.5 percent of GDP target agreed to with the IMF. It achieved this success through stringent restrictions on state expenditures and increased revenues from the new VAT (implemented on April 1) and excise taxes. U.S. Treasury Department estimates the deficit will reach about 7 percent of GDP by year-end 1994, due to increased social security outlays, expenditures on the elections, and interest on domestic debt. The Government of Bulgaria financed the deficit through a combination of central bank borrowing and treasury bill sales.

In April, Bulgaria rescheduled its 1993 and 1994 maturities with the Paris Club (official creditors). In June, it restructured 8.1 billion dollars in commercial (London Club) debt, resulting in a 47 percent reduction. The government and the IMF agreed on a Standby Agreement/Systemic Transformation Facility for approximately 300 million Special Drawing Rights (about 410 million dollars). The World Bank released the second 100 million tranche of its 1991 Structural Adjustment Loan. Talks with the Bank stalled on a Financial and Enterprise Structural Adjustment Loan.

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 to fuel the rapidly growing service and consumer goods sectors. However, legal privatization of state-owned industry moved slowly, as did the breakup of state-organized collective farms.

Bulgaria's association agreement with the European Union (EU) finally took effect January 1, 1994. An analogous agreement with the European Free Trade Association (EFTA) entered into force in 1993. With the conclusion of its EU and EFTA negotiations, Bulgaria returned its attention to negotiating its GATT accession. The Bilateral Investment Treaty with the United States was ratified by the U.S. Senate and took effect in June.

2. Exchange Rate Policy

After several years of remarkable stability, and even significant real appreciation given inflation, in August 1993 the Bulgarian lev began to fall in foreign exchange markets. By March 1994, the lev had fallen 42 percent (from BGL 22.1 to 53:U.S. dollar) and a run on the lev briefly threatened before it stabilized temporarily at around BGL 51:U.S. dollar. The lev continued to depreciate gradually during the rest of the year. BNB intervention in the currency market reduced the country's convertible currency reserves from more than one billion to around 600 million dollars in February. Reserves increased significantly thereafter with the infusion of balance of payments support from the IMF, the IBRD, and the G–24 nations.

The BNB sets an indicative daily U.S. dollar rate for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates. A parallel market operates openly offering about a four percent premium.

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 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. The enactment of an up-to-date Bankruptcy Law in 1994 was a significant step in bringing Bulgaria's Commercial Code up to international standards. Further revisions in the Code (regarding commercial activity) and security and exchange laws are under parliamentary consideration. Implementation of reforms is hindered by slow decision making and bureaucratic red tape.

Although Prime Minister Berov entered office pledging his would be the "privatization government," privatization advanced only marginally in 1994, primarily in small-scale and municipal projects. It is estimated that only five percent of state enterprises have been privatized so far. After prolonged wrangling, Berov announced in June a mass privatization plan closely patterned on the voucher system employed in the former Czechoslovakia. Parliament approved the "demand side" program, but had not yet approved the "supplyside" (including the list of 360 firms to be privatized in the first wave) when it was dissolved on October 17. Implementation of the mass privatization program now must await the formation of a new government after the December elections, probably in early 1995. Meanwhile, caretaker Prime Minister Indjova took steps to speed up small-scale and municipal privatization. Until privatization is well rooted, one can expect a certain unpredictability in commercial dealings.

With the implementation of the new 18 percent unified-rate VAT on April 1, Bulgaria took a significant step in reforming its tax system. However, the revised Income and Profits Tax laws still have not been submitted for consideration to Parliament. While average tax rates are relatively low according to the IMF, U.S. experts believe that marginal tax rates are too high to stimulate the economy. 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 dollars outstanding, the government declared a debt service moratorium in March 1990. Bulgaria continued to service three small convertible-currency bond issues. Bulgaria resumed partial servicing of its debt in late 1992. Of Bulgaria's current 13 billion dollar debt, more than 80 percent is owed to foreign commercial creditors; almost half of the commercial debt is trade financing. The cutoff of trade financing by the western banks because of the moratorium has been the main barrier to imports from the U.S. and elsewhere.

In April 1994, Bulgaria rescheduled its official ("Paris Club") debt for 1993 and 1994. In June, it concluded a Brady plan-type agreement to reschedule 8.1 billion dollars of its debt to commercial creditors ("London Club"). This agreement reduced Bulgaria's commercial debt by 47 percent. Even with this debt reduction, however, Bulgaria will be challenged to meet its total debt service requirements in the next few years. Debt to GDP ratio is 84 percent.

After protracted negotiations, the IMF approved a one-year standby agreement/structural transformation facility of approximately 410 million dollars for Bulgaria in February 1994. To support the IMF stabilization program, the G–24 countries pledged 330 million dollars in balance of payments support for 1994. Bulgaria also complied with the final conditions of its World Bank structural adjustment loan, permitting the release of the 100 million dollar second tranche and 100 million dollars in Japanese matching funds. An additional 250 million dollars was loaned jointly by the IMF and World Bank to help finance the initial payment of Bulgaria's London Club rescheduling.

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. (Prior to the dissolution of COCOM, Bulgaria was granted "favorable consideration status," which means a presumption of approval for COCOM applications and a shorter approval period. Bulgaria has ex-

pressed its interest in membership in the "COCOM successor" regime currently under negotiation.) 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 product imports of plant or animal origin are subject to veterinary and phytosanitary control, and relevant certificates should accompany such goods.

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. Since the 1993 repeal of special tax incentives, foreign investors have been subject to the same 40 percent Profits Tax as Bulgarian enterprises.

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. A U.S. tobacco company complained of the lack of transparency in the issuing of cigarette manufacturing licenses and privatization in the tobacco sector.

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.

U.S. firms complain that the inflexible or rigid enforcement of tax and other regulations inhibits investment plans. U.S. tobacco companies complain that the arbitrary classification of cigarette brands for excise-tax purposes seriously limits the incentives to invest. A major U.S. company complained that the inflexibility of the Bulgarian bureaucracy delayed the startup and increased the cost of a major investment project.

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 also are finding that, in general, neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures for supplying goods and services.

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. 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.

Imports from the United States are assessed at the most- favored-nation (MFN) rate. Bulgaria's Association Agreement significantly lowered tariffs and modified quantitative restrictions on goods orignating in the EU. Just over 25 percent of U.S. exports to Bulgaria for January–June 1993 were put at some price disadvantage by these changes. The United States is seeking significant reductions in Bulgarian tariffs on U.S. goods as part of Bulgaria's accession to the GATT.

6. Export Subsidies Policies

The Bulgarian government does not subsidize exports.

7. Protection of U.S. Intellectual Property

The adoption in 1993 of new Patent and Copyright Laws brought the Bulgarian IPR system up to international standards generally, but enforcement is seriously deficient. 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. Bulgaria's third major piece of IPR legislation, the Trade Mark 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."

Enforcement of IPR laws is problematic. Authorities have not established a record of vigorous enforcement to make the laws credible. Video and computer program piracy are widespread. One major U.S. company estimates that it is losing 15–20 percent of its sales volume due to trademark infringement. This firm does not regard the fines or the publicity given in several successful prosecutions of piracy as sufficient to deter future infringement. The U.S. Embassy is not aware of any cases of patent violation. For 1992, the International Intellectual Property Alliance estimated total trade losses for the U.S. of 47 million dollars due to piracy in Bulgaria.

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 1994. Estimates of the unionized share of the workforce 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 Union of Democratic Forces (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. There were two major national strikes in 1994, by students and miners; both ended without major concessions by the government.

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 workplaces have more members than either of 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.*—Many observers agreed that the practice of shunting minority and conscientious-objector military draftees into work units which often carry out commercial construction and maintenance projects is a form of forced labor.

d. *Minimum Age of 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. Underage employment occurs in the informal and agricultural sectors, but does not seem to be either widespread or systematic.

e. *Acceptable Conditions of Work.*—The national monthly minimum wage was adjusted twice in 1994, and at year's end stood at approximately 33 dollars (1,814 leva). Inflation in 1994 dramatically increased the cost of living. The minimum wage was not enough for a single wage earner to provide a decent standard of living for a family. 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 in many cases are worsening owing to budget stringencies and a growing private sector over which labor inspectors have not yet achieved effective supervision.

f. *Rights in Sectors with U.S. Investment.*—Overall U.S. investment is relatively small as of late 1994. 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 1994. Conditions do not significantly differ in these sectors from the rest of the economy.

CANADA

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (billions of 1986 USD)	462.0	442.3	[1] 435.2
GDP Growth Rate (pct.)	0.6	2.2	[2] 3.9
Real GDP by Industry: (millions of 1986 USD).			
Manufacturing	72,077	70,889	[1] 70,561
Finance/Insurance/Real Estate	67,142	64,577	[1] 62,589
Trade	49,390	48,371	[1] 49,088
Community/Business/. Personal Services	49,785	47,686	[1] 45,965
Transportation/Communications	33,185	32,010	[1] 31,998
Construction	22,624	20,184	[1] 19,892
Mining	16,795	16,817	[1] 16,875
Agriculture	8,221	8,231	[1] 8,037
Utilities	13,144	12,541	[1] 12,416
Logging/Forestry	2,158	2,182	[1] 2,159
Per Capita Personal. Disposable Income	13,843	13,149	[1] 12,618
Personal Savings Rate (pct.)	9.6	9.1	[1] 8.9
Labor Force (000s)	13,797	13,946	[3] 14,133
Unemployment Rate (pct.)	11.3	11.2	[3] 10.2
Money, Interest Rates and Prices: (end of period)			
Money Supply (M2)	282,323	273,333	[4] 262,426
Bank of Canada Rate (pct.)	7.36	4.11	[5] 5.54
Chartered Banks' Prime Rate (pct.)	7.25	5.50	[5] 7.00
90-Day Commercial Paper (pct.)	7.46	4.03	[5] 5.40
Consumer Price Index (1986 = 100)	128.1	130.4	[B] 130.8
Annual Percent Change	1.5	1.8	[B] 0.3
Industrial Product Price Index (1986 = 100)	109.1	112.7	[B] 118.8
Annual Percent Change	0.5	3.3	[B] 5.4
Exchange Rate (one C$ = US cents) (average annual noon rate)	82.76	77.53	[5] 74.58
Balance of Payments and Trade:			
Merchandise Exports	128,935	140,594	[6] 147,492
Exports to U.S.	99,724	112,734	[6] 124,782
Merchandise Imports	123,396	133,217	[6] 141,285
Imports to U.S.	87,564	97,495	[6] 108,183
Merchandise Trade Balance	5,539	9,377	[6] 6,208
Trade Balance with U.S.	12,160	15,240	[6] 16,599
Current Account Balance	−21,917	−23,805	[6] −21,971
Balance with U.S.	−1,849	−1,671	[6] −410
Gold Holdings (millions USD)	478.0	287.0	[5] 210.0
Official Int'l Reserves (millions USD)	11,909	12,776	[5] 15,790
Total Federal Debt:.			
Accumulated Deficits (billions USD)	386.0	396.2	405.0
Federal Deficit	FY91–92:	FY92–93:	FY93–94:
(billions USD)	33.5	32.6	[7] 29.2

Note: Converting the data from C$ to US$ distorts actual growth and trend lines.
[B] Embassy projection.
[1] Second quarter (IIQ) 1994 (actual data), seasonally adjusted at an annual rate.
[2] Percent change between IIQ 1994 and IIQ 1993.
[3] Third quarter average.
[4] M1 + chartered banks non-personal notice deposits + personal savings deposits, as of 8/31/94.
[5] Third quarter end of period.

[6]First half of 1994 annualized.
[7]Federal Govt. projection for FY1994–95. Canada's fiscal year covers the period 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 redistribute wealth from high income individuals and regions to lower income persons and provinces. While the government has made progress on privatization, government-owned Crown Corporations such as the Canadian Broadcasting Corporation, the Canadian National Railway, the Canadian Wheat Board, and provincial electric utilities still play an important role in the economy.

Canada is the most important trading partner of the United States. Although natural resources and related products remain important components of the Canadian economy, the economy is now fully industrialized and produces highly sophisticated consumer goods and capital equipment. As of August 1994, Canada's annualized merchandise exports to the United States were US$140.5 billion, and annualized merchandise imports from the United States were US$118.2 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 1993 was US$113 billion, of which US$70 billion or 62 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 policymakers at the federal and provincial levels. Net public debt in FY1993–94 exceeded 74 percent of Gross Domestic Product. Government options to reduce deficits are constrained by high levels of non-discretionary spending. 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 discretionary programs such as defense, agriculture and foreign aid would require the government to make difficult political decisions. Nevertheless, the government has stated firmly that it intends to reduce the deficit to three percent of GDP by the April 1996-March 1997 fiscal year.

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 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. 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). This continues under NAFTA. However, the federal government still prohibits the entry of direct branches of foreign banks. In mid-1992 Canada implemented further financial sector reforms, which largely eliminated remaining barriers among banks, trust companies and insurance companies.

Transportation policies: The pro-competitive National Transportation Act and its companion legislation, the Motor Vehicle Transport Act, entered into force in 1988. While underscoring the continuing need to maintain high safety standards, this legislation introduced a greater degree of deregulation in the Canadian transportation industry.

Aviation is not included in the NAFTA. 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. On September 27, 1994 U.S. Transportation Secretary Pena and Canadian Transport Minister Young appointed personal representatives to explore the possibilities of reopening negotiations. Formal negotiations were subsequently scheduled for January of 1995 with the objective of rapid market liberalization.

Telecommunications Policies: Canada's long-awaited Telecommunications Act was proclaimed in force on October 25, 1993. Among its provisions, the legislation allows the federal regulator, the Canadian Radio-television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, exempts resellers from regulation, and limits foreign ownership of telecommunications firms to 20 percent. Carriers which operated in Canada prior to 1987, but which do not meet 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$243 billion (44 percent of GDP) in 1993, 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 to eliminate, over a ten year period, virtually all tariff and non-tariff barriers to trade between the two countries. The Canada FTA was suspended on January 1, 1994, with the entry into force of the North America Free Trade Agreement (NAFTA), which expands the free trade area to include Mexico. The NAFTA provisions go beyond the CFTA in the areas of services, investment and government procurement. Canada passed implementing legislation for the Uruguay Round agreement under the General Agreement on Tariffs and Trade, and joined the World Trade Organization as a founding member.

Nevertheless, a number of Canadian practices remain which constitute barriers to U.S. exports to Canada.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs, and poultry), fresh fruit and vegetables, potatoes, processed horticultural products and live swine. The US continues to pursue these issues bilaterally. Regarding the supply managed commodities, bilateral talks will be necessary to resolve contradictions between Canada's Uruguay Round implementation and its obligations under NAFTA.

Provincial legislation and Liquor Board policies regulate Canadian importation and retail distribution of alcoholic beverages. The Canada FTA addressed a number of these policies (listing, distribution, and pricing) and provided dispute settlement procedures. Provincial beer distribution practices had been grandfathered under the FTA but were challenged by the U.S. under the GATT. The U.S. and Canada concluded a Memorandum of Understanding in August 1993 which significantly improved access to the Canadian market for U.S. beer. However, U.S. exporters have remained unhappy about provincial minimum import price requirements and cost-of-service issues hinder the importation of U.S. wine.

Although some progress has occurred, problems remain in the area of standards and labeling. The FTA chapter on technical standards provides for the accreditation of U.S. certification organizations and testing laboratories in Canada. The Canadian accreditation agency, the Standards Council of Canada, has been slow in effecting

the necessary regulatory changes and in reviewing U.S. applications, but in 1992 it accredited two major U.S. testing and certification bodies, Underwriters Laboratories and the American Plywood Association. Since then, three additional test laboratories—Architectural Testing Inc., ETL Testing Laboratories, and Dash, Straus & Goodhue Inc., have been accredited. To date, several accreditation applications by U.S. certification and testing organizations remain under review by the Standards Council.

Under its Processed Product Regulations, Canada allows imports of processed fruit and vegetables to be sold only in certain limited-size packages (i.e. consumer sizes) for products where Canadian standard sizes are prescribed. Following three years of formal U.S. government representation, which prompted Canadian regulatory change in November 1993, U.S. exporters have improved access to Canada's hotel, institutional, and food service trade for a wide range of products such as ketchup, french fries, pickles, etc. in sizes larger than those stipulated in the regulations. However, trade remains hindered by strict packaging and labeling rules, from which Canadian manufacturers received a temporary (two-year) exemption, and plant certification requirements. For example, U.S. frozen french fry manufacturers remain unable to capture a share of the Canadian food service market estimated to be worth at least $40 million.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

Canada restricts the direct export of Pacific salmon by requiring that a portion of the Canadian catch be landed in Canada before being exported. An interim agreement reached following FTA dispute settlement permits direct export (i.e. sale at sea) of a portion of the catch by Canadian licensees. The level of direct exports, however, has been disappointing. Following a mid-term review in February, technical changes were made in the requirements for licensees. A Canadian ban on reexporting unprocessed herring, aimed at Japan, also prevents Canadian processors from using U.S. refrigeration facilities. The U.S. government will continue to monitor developments.

Canadian industries have used Canada's Special Import Measures Act (SIMA) to restrict access to the Canadian market by U.S. companies. 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.

Under the Investment Canada Act, the Broadcast Act, and 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 and NAFTA) requires the federal government to review and approve foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in all new ("greenfield") businesses, and acquisitions worth less than C$5 million (C$150 million for U.S. investors—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. Exceptions to the policy permit direct acquisition if the Canadian firm is in financial distress and no Canadian buyer can be found. Also, a foreign owner indirectly acquiring a Canadian firm might not be forced to divest it if a transaction of "net benefit" to Canada can be negotiated. Investment Canada also has specific policies regarding foreign investment in the film distribution sector.

In the banking sector, the Bank Act of 1980 made chartering of foreign-owned banking subsidiaries possible for the first time. However, foreign banks are still not permitted to enter Canada as direct branches. Foreign banks are also unable to acquire a domestic Canadian bank, since no single entity (person or corporation) can hold more than 10 percent of a Canadian bank's capital. The FTA eliminated other discriminatory restrictions on U.S. bank subsidiaries in Canada.

In the trust and loan, and insurance sectors, which are regulated by both the federal and provincial governments, foreign investors wishing to establish in either of these two areas may do so, but acquisitions of provincial firms are subject to restrictions preventing foreign control.

Where GATT Government Procurement Code or 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 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 arouses considerable U.S. concern.

6. Export Subsidies Policies

Under the Western Grains Transportation Act (WGTA), 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. In June, 1994, the GOC announced a proposal to phase out WGTA payments over a five-year period. Instead, the government will make direct income support payments to farmers.

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.

1987 amendments to the Canadian Patent Act significantly improved protection for patented drugs and was a positive step in resolving some of the complaints voiced by the U.S. pharmaceutical industry concerning alleged Canadian bias in favor of generic drugs. 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.

1989 amendments to the Canadian Copyright Act granted explicit copyright protection for computer programs, and provided a right of payment for retransmission of broadcast programming as required by the FTA.

In 1993 Canada proclaimed the Integrated Circuit Topography Act, a law protecting semiconductor chip design.

In January 1994, the Copyright Act was amended to reflect the changes required by NAFTA, e.g., rental rights for computer programs and sound recordings; protection for data bases and other compilations; and increased measures against all categories of pirated works.

8. Worker Rights

a. *The Right of Association.*—Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. *The Right to Organize and Bargain Collectively.*—Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. 37.5 percent of Canada's non-agricultural workforce is unionized.

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 workforce) vary, but generally require parental consent for workers under 15 or 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person under 16 cannot be employed in a designated trade, or, in other words, become an apprentice before that age.

e. *Acceptable Conditions of Work.*—Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. *Rights in Sectors with U.S. Investments.*—Worker rights are the same in all sectors, including those with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		8,840
Total Manufacturing		34,062
Food & Kindred Products	3,645	
Chemicals and Allied Products	5,032	
Metals, Primary & Fabricated	2,745	
Machinery, except Electrical	2,240	
Electric & Electronic Equipment	1,623	
Transportation Equipment	8,720	
Other Manufacturing	10,059	
Wholesale Trade		6,653
Banking		823
Finance/Insurance/Real Estate		12,242
Services		2,425
Other Industries		5,349
TOTAL ALL INDUSTRIES		70,395

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

CROATIA

In 1994 Croatia's economy showed tentative signs of recovery from the disruption it suffered after the breakup of the former Yugoslavia. But the scars of war remain highly visible as Serb forces still occupy one-fourth of Croatian territory. With 25–30 percent of its agricultural capacity destroyed, Croatia's 1993 GDP remained around half of its 1990 level. Due largely to the war and the collapse of intra-Yugoslav trade, industrial production remained at 30–40 percent of Croatia's 1991 production level. Despite these figures, a bold economic stabilization program initiated by the government in October 1993 has shown promising results.

The ongoing occupation of Croatian territory by Krajina Serbs continues to retard Croatia's recovery. The Krajina Serbs continue to cut a key railroad link to the coast as well as the Adria pipeline. Energy production suffers while oil fields in Slavonia remain occupied. The war crippled Croatia's profitable tourist industry, which in the summer of 1994 operated at only one third of the pre-war level. Nonetheless tourist activity improved, especially in the Istrian peninsula; in October 1994 Hina reported a 55 percent increase in tourist activity over the previous year's level. Intermittent hostilities and U.N. sanctions restrict trade with Serbia, a major pre-war market. A tentative step towards reconciliation with the Serbian population of Croatia occurred in December 1994, with the signing of an agreement on economic confidence-building measures.

The three-phase stabilization program which the government adopted in October 1993 has improved Croatia's economic situation. The unemployment rate continued its three-year decline, yet at 15 percent remains well above the pre-war level of nine percent. Inflation dramatically fell by the summer of 1994 to a monthly rate of 1–2 percent, one of the lowest in the region. Croatia had increased its hard currency reserves to $1.68 billion by July 1994.

With the signing of the Washington Accords in March 1994, Croatia won key support for multilateral assistance. The World Bank approved a $128 million Economic Recovery Loan in June. Another $100 million for agricultural support and private family support are in the pipeline for approval. The IMF recently approved a Stand-by Arrangement and Systemic Transformation Facility totalling $192 million. The EBRD will act upon two additional infrastructure project proposals in late 1994, $46.7 million for electricity network reconstruction and $76.3 million for roads and bridges.

Croatia's economy supports over 400,000 refugees and displaced persons from Bosnia and occupied Croatian territories. An estimated 80 percent of refugees have found shelter with families in Croatia; this situation is untenable in the long term. Refugees continue to occupy hotels and fill refugee centers. In September 1994, refugees continued pouring into Croatia at a rate of nearly 500 per week. While the international community has provided the bulk of the food needed for the refugees, the Croatian government pays for medical care and utilities at an estimated daily cost of $1.2 million. Even with such expense, the conditions in many refugee camps are inadequate with a lack of warm water, health care, schools, and other basic necessities.

THE CZECH REPUBLIC

Key Economic Indicators

[Billions of U.S. dollars at the exchange rate indicated]

	1992[1]	1993	1994 (est)
Income, Production and Employment:			
Real GDP (1985 Prices)[2]	14.2	13.8	14.4
Real GDP Growth (pct.)	−7.1	−0.3	2.5
GDP (current prices)[2]	28.4	31.7	35.7
By Sector:[3]			
Agriculture/Husbandry/Forestry/Fisheries		0.8	0.8
Mining of Raw Materials		0.6	0.5
Energy/Water/Gas		1.0	1.0
Manufacturing		3.9	4.7
Construction		0.5	0.3
Retail/Vehicle Reparis/Consumer Goods		1.3	1.6
Transports/Storage/Communications		0.8	1.0
Private Health/Education		2.0	2.6
Goverment Health/Education		2.2	2.5
Real Per Capita GDP	1,375	1,335	1,384
Labor Force (000s)	4,766	4,777	4,777
Unemployment (pct.)	2.6	3.5	3.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	594.4	722.0	769.6
Base Interest Rate (average)	13.38	14.00	12.80
Personal Saving Rate	7.5	9.3	9.9
Retail Inflation	11.1	20.8	11.0
Producer Price Index	9.9	13.1	7.0
Exchange Rate (KC/USD)			
Official	28.29	29.15	28.17
Parallel (Vienna market)	32.28	29.85	30.00
Balance of Payments and Trade: (Billions of U.S. dollars)			
Total Exports (FOB)[5]	8.23	12.93	6.59
Exports to U.S.	0.153	0.235	[6]0.191

Key Economic Indicators—Continued

[Billions of U.S. dollars at the exchange rate indicated]

	1992[1]	1993	1994 (est)
Total Imports (CIF)[5]	8.89	12.84	6.40
Imports from U.S.	0.525	0.386	[6]0.306
Aid from U.S. (million USD)	32	33	30
Aid from Other Countries	1.47	1.20	0.80
External Public Debt	7.5	8.5	9.0
Debt Service Payment (paid)	1.3	1.4	1.1
Gold and Foreign Exch. Reserves			
Official	0.8	3.0	5.2
Gross	3.6	6.2	7.7
Trade Balance[5]	−0.66	0.09	0.19
Trade Balance with U.S.	−0.372	−0.151	−0.115

[1] Figures are data from CNB and Czech Statistical Office.
[2] GDP at factor cost.
[3] Figures compare first half year of 1993 to that of 1994.
[4] Figures are average annual interest rates.
[5] Merchandise trade.
[6] January to August.

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, and which were devised and initiated by many of the current policymakers 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. The economy is likely to experience growth this year. The government's estimate for this year is 2.5 percent growth, and for the next year is 3.3 percent.

The Czech government, having largely adjusted to the economic consequences of the split with Slovakia, is continuing down the road towards European economic integration. Despite notable problems, such as restructuring newly privatized firms, dealing with a shortage of domestic capital, and coping with a generally weak financial sector, statistics suggest that the Czech economy as a whole appears to have bottomed out in late 1992 and remained stable through 1993. The economy is likely to experience growth in 1994, as suggested by the latest data on GDP. Though 3.3 percent growth in the first quarter of 1994 can be ascribed to significant decline in the first quarter of 1993 due to the country's split, 2.2 percent growth over the whole first half of 1994 indicates a real growth trend.

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, under the former Czechoslovakia) eligible to participate in the voucher program did so, giving this country's population perhaps the highest percentage of stockholders in the world. In addition, approximately 20,000 small businesses were transferred through direct sale. The second wave of privatization is currently underway and is scheduled for completion by the end of 1994. When it is complete, some 80 percent of production will be in private hands. The private sector contribution to GDP is estimated at around 56 percent in the first half of 1994.

The government is likely to meet its target of a balanced budget for 1994 with the contribution of funds acquired through the sale of state enterprises and with restricted expenditures counterbalancing lower than forecast tax revenues. As of August 1994, there was a budget surplus of 19.8 billion crowns. In 1993, the budget had a surplus of 1.1 billion crowns. The 1992 budget for Czechoslovakia was in deficit by approximately $550 million, roughly 2 percent of GDP. This can be attributed chiefly to an overestimation of the turnover tax revenues, an undercalculation of entitlement programs, and off-budget expenditures needed to cover government loan guarantees.

The central bank, or Czech National Bank, is an independent monetary authority which has proven itself capable of withstanding political pressure. Monetary policy in the Republic has stabilized. As the inflow of foreign capital was stronger than expected this year, the central bank, as an anti-inflation measure, increased reserve

requirements from 9 to 12 percent as of July 1994, and the discount and lombard rates by 0.5 percent (as of October 24 they were 8.5. and 11 percent respectively). The Czech National Bank also has been strengthening its supervision over commercial banks.

2. Exchange Rate Policy

The Czech government has followed a "hard crown" policy which has kept the crown stable since January 1991. The official exchange rate has remained at the level of 28–30 crowns per U.S. dollar throughout 1993 and only in October 1994 did it fall below 28 crowns, following the USD-DM exchange rate. 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 fully convertible for trade purposes. Full current account convertibility is expected in 1995 and full capital account convertibility in 1996–1997.

Under the Foreign Exchange Act of 1990, both domestic and 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. In the past, companies were obligated to exchange any foreign convertible currency earned for crowns, except for cases when the bank granted permission to maintain a foreign-exchange account. As of March 1, 1994, the Czech National Bank has routinely granted permission to establish foreign currency accounts. 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 instance, "revenue from investment" is defined as income from business profits, interest, capital profits, securities, or intellectual property.

3. Structural Policies

The continued shift away from a centrally-planned economy towards the free market continues to require adjustments throughout the legal, financial, and political structure. Some of the major changes are outlined below.

Taxes: The new tax system of January 1993 provides uniform rates and is better aligned with EU tax policies. The corporate income tax or "profit tax" of 43 percent in 1993 was lowered to 42 percent in 1994 and, if approved by the Parliament, should drop to 41 percent in 1995. In addition, in 1993 the government implemented a 5 percent value added tax (VAT) on staple goods and a 23 percent VAT on other goods, as well as a personal income tax. The 23 percent VAT is to be lowered by 1 percent as of 1995. The government plans to lower tax rates to EU levels over time. A bilateral tax treaty between the United States and the Czech Republic was signed in September 1993 and went into force retroactively as of January 1, 1993.

Prices: Over 95 percent of price controls were eliminated in 1991. As of late 1994, only the price of utilities, rents, gasoline, fuel oil, and various municipal services continue to be regulated. Remaining price controls are being eased gradually over time.

Wages: Following 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 are taxed at 100 percent of the excess in wages. For wage increases of more than 30 percent, the tax equals 200 percent of the excess increase not justified by productivity growth. However, the government has announced it will abolish wage regulation in the second half of 1995.

Privatization: The Czech government completed its first wave of privatization in 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, as the program started under the Federation) eligible to participate in this program did so. The second wave of privatization started on April 11, 1994 and is expected to be complete by early 1995. The government plans to sell 861 companies with property value of 155 billion crowns during the second wave.

4. Debt Management Policies

The Czech Republic maintains one of the lowest foreign debts in central and eastern Europe. As of September 1994, the gross foreign debt was approximately 9.0 bil-

lion dollars. Government debt represents approximately 17 percent of GDP, and current government plans call for the level of debt to drop to 10 percent by the year 2000. The government believes it 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. The Czech Republic repaid its debt to the IMF ahead of schedule, the first post-communist country to do so.

Due mainly to the lending policies of the former communist regime, the current government is owed approximately 4.5 billion dollars by various (mainly formerly communist bloc) countries. Among them are Russia (owing approximately 3 billion dollars) and Syria (owing approximately 750 million dollars). Although the Russian debt was restructured in 1994 and some payments on this debt have been made, collection on other debts is uncertain.

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 barriers for U.S. exports to this country. The Czech Republic adopted a GATT tariff code which has an average tariff of 5–6 percent.

Some provisions of the 1993 Czech tax code have been criticized as inhibiting investment. In particular, concern has been expressed over bad debt write-off and the tax status of group and offshore companies. Czech legislation denies (generally until bankruptcy proceedings are initiated) corporate tax deductibility of bad debt reserves and the possibility of reclaiming VAT on bad debts. In addition, Czech legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividend withholding tax on profit flows between group companies, thus creating double taxation on such profits. Czech law also does not permit intragroup use of losses (i.e., offsetting losses in one group entity against profits in another) and imposes corporate tax on dividends received from foreign holdings without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction. Offshore companies are taxable in the Czech Republic if they engage in a significantly lower level of domestic activity than the guidelines recommended by the Organization of Economic Cooperation and Development (OECD) or standards applied in other countries.

With a few limited exceptions, such as defense-related industries, all sectors of the Czech economy are fully open to U.S. investment. The official monopolies in tobacco and film distribution were both abolished in 1993.

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 the U.S. in August 1992 and ratification by the Czechoslovak parliament occurred in late 1992.

A bilateral tax treaty was signed with the Czech Republic in September 1993 and entered into force in January 1994. The United States granted 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 signed the Uruguay Round document in GATT to lower tariff rates over the next ten years.

6. Export Subsidies Policy

A legal framework is being drafted to enable the Czech export bank, a subsidiary of the Export Guarantee and Insurance Company, to provide export guarantees and credits to Czech exporters. It is expected to begin operating in mid-1995. 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 Czech government has agreed to be bound by the obligations undertaken 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 conform to those of western Europe. However, enforcement of existing regulations is still uneven.

Enforcement of video piracy laws is an ongoing concern for U.S. video and motion picture exporters. While awareness of the problem by Czech officials is increasing, economic losses continue to threaten the viability of these exports. In 1993 the Czech Antipiracy Union (CPU) stated that 40 to 50 percent of the local market for video cassettes was lost to video products either illegally produced or imported. The CPU filed 450 video piracy court cases in 1992 and 468 in 1993, but enforcement

remains lax and fines are low. In 1993, the activity in Prague's so-called "video exchanges" stabilized. Inspections in video-lending shops, carried out by CPU in cooperation with the police, has improved enforcement. Copyright violations also represent a problem, especially copies from German originals and piracy of both foreign and Czech originals.

There have been similar concerns about software piracy. Recently, two cases of software piracy were disclosed by the media and are under investigation by the police. The US-based Business Software Alliance has opened an affiliate office in Prague and is working to raise the level of awareness on this and similar issues.

8. Worker Rights

Workers in the Czech Republic have the legal right to form and join unions without prior authorization. Currently, two-thirds of workers are members of some labor organization, although the overall number of union members has declined slightly since 1991. Under the law, all workers are guaranteed the right to strike when mediation efforts have been exhausted; exceptions are those workers in sensitive positions (nuclear power plant operators, military, police, etc.) who are forbidden to strike.

Workers also have the right to organize and bargain collectively. Wages are set by free negotiation.

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 guarantee. There is no evidence or indication that such practices have occurred since the 1989 Revolution.

The basic minimum age for employment 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.

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 the actual number of hours worked closer to 40. 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.

As far as the Embassy is aware, all 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		62
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	1	
Transportation Equipment	0	
Other Manufacturing	−1	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		(2)
Other Industries		(1)
TOTAL ALL INDUSTRIES		127

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

DENMARK

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted [1]]

	1992	1993	1994 [2]
Income, Production and Employment:			
Real GDP (1985 prices) [3]	97,004	91,292	96,700
Real GDP Growth (pct.)	1.7	1.0	4.3
GDP (at current prices) [3]	122,364	117,658	127,000
By Sector:			
Agriculture	4,353	4,410	4,700
Energy/Water/Heat	2,043	2,337	2,550
Manufacturing	23,561	22,258	24,000
Building/Construction	6,536	6,123	6,600
Raw Materials/Mining	1,231	977	1,000
Rents	12,587	11,556	12,450
Financial Services	2,105	2,439	2,700
Other Services	44,151	42,705	46,100
Government Services	28,360	27,531	29,700
Overlap Corrections	−2,562	−2,679	−2,800
Net Exports of Goods & Services	11,269	10,905	9,000
Real Per Capita GDP [3] (USD/1985 prices)	18,762	17,592	18,578
Labor Force (000s)	2,835	2,851	2,852
Unemployment Rate (pct.)	11.3	12.4	12.4
Money and Prices (annual percentage growth):			
Money Supply	−1.2	11.2	4.8
Base Interest Rate (pct.) [4]	11.6	10.5	8.3
Personal Saving Rate (pct.)	5.7	5.2	4.4
Retail Inflation.			
Consumer Price Index	2.1	1.3	2.0
Wholesale Inflation	−1.1	−0.6	0.8
Exchange Rate (USD/DKK)	0.1656	0.1543	0.1567
Balance of Payments and Trade:			
Total Exports (FOB) [5]	38,908	37,196	40,300
Exports to U.S.	1,724	1,898	2,250
Total Imports (CIF) [5]	30,578	30,549	35,500
Imports from U.S.	1,788	1,418	1,800
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Debt	50,000	42,130	38,900
External Debt Service Net Interest Payments	5,583	4,722	4,200
Gold and Foreign Exch. Reserves	7,444	11,539	10,000
Trade Balance [5]	8,330	6,647	4,800
Trade Balance with U.S.	−64	480	450

N/A—Not available.

[1] Danish Krone/Dollar exchange rates used: 1992: DKK 6.04=$1.00; 1993: DKK 6.48=$1.00; 1994: DKK 6.38=$1.00

[2] 1994 figures are all estimates based on available data in October 1994.

[3] GDP at factor cost.

[4] Figures are actual, average annual bank lending interest rates, not changes in them.

[5] Merchandise trade, excludes EU Agricultural Export Subsidies.

Note: All dollar figures shown in the text have been converted from Danish Kroner figures using the average DKK/USD exchange rate in the relevant year.

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 make Denmark more than self-sufficient in oil and gas. As Denmark remains dependent on imported raw materials and semi-manufac-

tures for its industry and on coal for its electrical power production, 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. Denmark ratified the Uruguay Rounds agreements in 1994. EU and EFTA countries account for more than three-quarters of Denmark's total trade. The United States, Denmark's largest non-European trading partner, accounted in 1993 for about five percent of total Danish merchandise trade. On May 18, 1993, Danish voters reversed their earlier rejection of the far-reaching European Union (The Maastricht Treaty) and reinforced Denmark's commitment to continued EU cooperation and integration. However, Denmark reserved its participation in the third phase of the Economic and Monetary Union (EMU). Denmark benefits from the EU Single Market, which started January 1, 1993, and has taken the initiative to increase the EU Commission's and member countries' focus on new nontariff trade barriers being created while other barriers are dismantled.

Despite increasing unemployment and low economic growth in the late 1980's and early 1990's, the underlying Danish economy has been strong due to increasing balance of payments surpluses and falling inflation. This resulted from the former minority center-right coalition government's tight fiscal policies of minimum increases in public expenditures and monetary and exchange rate policies similar to Germany's. The Social Democratic Party (SDP)-led majority coalition government, which took power in January 1993, relaxed fiscal policy, and introduced a limited income tax reform to kick-start the economy. The government also introduced a series of measures to combat unemployment, which have included government-funded leave programs and government-subsidized job creation measures. An SDP-led minority government has continued in office following the September 21, 1994 election.

Despite strong economic growth starting in the second half of 1993, unemployment has been slow to react due to large productivity increases and extraordinarily large new inflows of labor. Although there is broad political agreement on putting a lid on the public sector's size and costs, increased unemployment benefit costs and other transfer income costs, as well as the introduction of recession response measures, have led to growing budget deficits. The public sector budget deficit almost doubled in 1993 to 4.4 percent of GDP and is only being marginally reduced in 1994. Foreign investment economic incentives consist of lenient income taxation of high-paid foreigners working in Denmark (a flat 30 percent tax on gross income). Since 1989, the government has spent the equivalent of about $10 million promoting direct investment in Denmark by U.S. and Japanese high-tech companies, which has assisted some U.S. acquisitions of Danish high-tech companies. U.S. and Japanese greenfield investments, on the other hand, have been limited.

Danish fiscal policy meets the conditions of the 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 on market terms.

The Danish fixed exchange rate policy (see section 2), pursued since the early 1980's, requires a monetary policy which gives high priority to price stability. This together with fully liberalized capital movements means there is limited room for Denmark to adopt independent interest rate and liquidity policies.Official Danish interest rates are linked closely to those of Germany. In order to tighten management of money-market rates (without adjusting official rates), the Central Bank, which has monetary policy authority, introduced in April 1992 a 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. During 1993, the Central Bank successfully used discount rate adjustments to control liquidity and to protect the krone. The discount rate was adjusted 17 times, twice upwards by two percent during the February and July currency crises. The 15 downward changes were generally within 0.25 to 0.5 percentage point range. Starting at 9.5 percent at the beginning of 1993, the discount rate was reduced to 6.25 percent by the end of the year. By September 1994, the discount rate was five percent (last reduction was in May). However, the low inflation (two percent in 1994), together with monetary and the exchange rate policies, maintains high real market interest rates which 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 this policy continues. In August 1994, the trade-

weighted value of the krone was more than five percent higher than in August 1993, due mostly to volatile developments in the ERM in July and August 1993, when the ERM fluctuation bands were widened to plus or minus 15 percent. 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 stabilized, Denmark's foreign exchange reserves returned to normal levels.

The value of the krone against the dollar in September 1994 (DKK 6.11 to $1.00) was almost nine percent higher than in September 1993. In late October, the dollar had fallen further to DKK 5.87, a 13 percent decline since late October 1993. The consequent improvement in U.S. price competitiveness should assist increased U.S. exports to Denmark.

3. Structural Policies

Danish pricing policies are based on market forces. Entities with the ability to fix prices because of their dominance in the market are regulated by a Competition Council.

In spite of the income tax reform introduced in 1994, 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. For example, the highest marginal tax rate is more than 60 percent and applies to all income above that of a fully employed skilled worker. With the introduction in 1994 of a five percent tax on gross income (increasing to eight percent by 1997), the Danish income tax system was brought closer to those of other EU countries. Uniquely among EU countries, Danish employers pay virtually no nonwage 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 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 total central government revenues, a reduction would have severe budgetary consequences. The government has no plans to reduce the VAT, and hopes for VAT rate harmonization through increases in the VAT rates of other EU countries, particularly those of Germany. The corporation tax is 34 percent which, combined with favorable depreciation rules and other deductions, is among the lowest in the EU.

Despite Denmark's success in resolving many of its former structural problems, unemployment remains a major problem. Despite high unemployment, labor mobility, both geographically and sectorally, is low in Denmark due to leniently applied requirements to qualify for unemployment benefits and structural rigidity which prevents crossing craft lines. The government is considering enforcing present rules more vigorously to tighten eligibility for benefits and increase mobility in general. At present, about two-thirds of the costs of unemployment benefits are paid from general revenues. Rather than consider extensive labor market reform, the SDP government's efforts have so far concentrated on job rotation (leave programs) and on job creation through subsidization of repair and maintenance of buildings and subsidization of home services work, the latter without any notable success.

4. Debt Management Policies

Since 1963, large, recurring balance of payments (BOP) deficits produced a foreign debt which in 1988 peaked at $44 billion (DKK 6.73 to the dollar), or 40 percent of GDP. However, since 1990, the BOP has moved into a surplus which reached $5.6 billion in 1993. Consequently, foreign debt is gradually being reduced and by the end of 1993 equaled 31 percent of GDP. Despite BOP surpluses, net interest payments on the debt continue to be a burden, accounting for some 10 percent of goods and services export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and AA1, respectively, reflecting the strong economy and the large BOP surplus. Denmark's public sector is a net external debtor, while the private sector, including banks, is a net creditor. At the end of 1993, the public sector's net foreign debt, including foreign exchange reserves, was the equivalent of $59 billion, of which krone-denominated government bonds accounted for more than 70 percent.

The central government's debt denominated in foreign currencies rose almost 60 percent to the equivalent of $34.6 billion at the end of 1993 due to the large borrowing in connection with the July/August currency crisis. Dollar denominated debt accounted for 31 percent of this debt, followed by German mark debt accounting for 29 percent. Close to one-half of the debt is in short term obligations with variable interest rates. The total debt has an average term of two years (3.5 years for the fixed interest rate debt alone).

Danish development assistance is large by international standards, accounting for one percent of Gross National Product (GNP), or $1.3 billion in 1993. It is almost equally distributed between bilateral and multilateral assistance. Bilateral assistance is concentrated on 18 "program" countries, of which four were added in 1993: Burkina Faso, Eritrea, Nicaragua, and Vietnam. African countries account for some 60 percent of total bilateral assistance. Denmark also supports the new democracies in Central Europe, the Baltics and the former Soviet Union and in 1994 will spend about $330 million for assistance (0.25 percent of GNP). Finally, Denmark will spend in 1994 about $750 million for multinational environmental and disaster programs, including "pre-asylum" refugee costs in Denmark and U.N. peace keeping efforts. 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 phyto-sanitary requirements.

With the implementation of the EU Single Market on January 1, 1993, most industrial standards, testing, labeling and other requirements are being harmonized within the EU. However, as harmonization takes place, new trade barriers have surfaced in individual EU member countries. Denmark has taken the lead in combatting the problem and, together with the EU Commission, hosted a successful non-tariff barrier conference in Copenhagen in September 1994.

With respect to services, the Danish Credit Card Act, adopted in 1987, prevents credit card companies from operating in Denmark on standard international terms. This law 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 have continued operations under the new requirements.

Denmark, like most other countries, requires an exam or experience in local law in order to practice law. The Danish goverment requires the managing directors of foreign-owned stockbroker companies to have at least three years of experience in securities trade. However, experience in a U.S. stock exchange alone will probably not 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, but as of the end of 1994, no longer 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—about 20 percent—over such ships). Danish law provides for a reciprocity test to foreign direct investment in the financial sector, which, however, has not been an obstacle to U.S. investment. For example, the U.S. Republic National Bank of New York opened a representative office in Copenhagen on July 1. Once established, an entity receives national treatment. The Danish telecommunications network will be a government controlled monopoly until 1998 when networks become liberalized within the EU, but is open to minority portfolio investment. A second private cellular mobile telephone network (General Systeme Mobile-GSM) with the U.S. BellSouth participating, competes with the government controlled Tele Danmark's GSM operation.

Danish government procurement practices meet the requirements of the GATT public procurement code and of EU public procurement legislation. Denmark implemented the EU Public Procurement Directive 93/36/EEC on June 24, 1994 and the new EU "Utilities" Directive 93/38/EEC (public procurement of goods, building and construction, and services within the water, energy, transport, and telecommunication sectors) on July 1, 1994. Regarding the latter, indications are that the voluntary "50 percent EU Origin requirement" will be interpreted liberally by the Danish government and that the mandatory three percent price differential requirement will only have minor importance in procurement decisions. 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 and EU legislation. 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.

U.S. companies residing in Denmark as a general rule receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company (ies). The Embassy has no record of complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export restitutions (subsidies) in 1993 of $880 million were equivalent to more than 10 percent of the value of total Danish agricultural exports. Government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its nonagricultural exports except for shipbuilding. Also, the government does not subsidize exports by small and medium size companies. Indirectly, however, Denmark has programs to assist export promotion, establishment of export networks for small and medium sized companies, 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 at least 50 percent of all bilateral assistance for purchases of Danish goods and services is maintained (it was 51 percent in 1993). All these programs, however, apply equally to foreign companies producing in and exporting from Denmark.

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 about one-third of total Danish state aids to industry. Denmark, as an ally of the United States, strongly welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally, but EU ratification of the agreement is pending.

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.

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 ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. 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 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Conventions and its 1971 revision, the 1961 International Convention for the Protection of Performers, etc., and the 1971 Convention for the Producers of Phonograms, etc. There is little piracy in Denmark of records or videocassettes. However, software piracy in Denmark is estimated at more than $100 million annually. Piracy is on the decline due to sharply reduced prices, improved protection of programs, and efforts to combat such piracy by the 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 analog and digital audio and video tapes for home use. Pending implementation of "material reciprocity" provisions, U.S. artists as of October 1994 receive national treatment. If these provisions are implemented, 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 imposes a comparable levy only on digital tapes, U.S. artists, who account for some two-thirds of works being copied in Danish homes, would not benefit from the levy collected on analog tapes.

The U.S. Embassy has no record of other complaints by U.S. organizations, exporters or subsidiaries in Denmark regarding infringement of intellectual property rights and/or unfair Danish practices in this field. Thus the impact on U.S. trade with Denmark appears limited.

Denmark is not named on the Special 301 Watch List or Priority Watch List, nor is it identified as a Priority Foreign Country.

8. Worker Rights

a. *Right of Association.*—Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. In 1993, 113,700 workdays were lost due to labor conflicts (up from 62,800 in 1992). Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *Right to Organize and Bargain Collectively.*—Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. The law prohibits antiunion discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial negotiations between the various employers' associations and their union counterparts. If negotiations fail, a national conciliation board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. The decisions of the court are binding. The labor contracts which result from collective bargaining, as a general rule, are also used as guidelines in the nonunion sector.

Labor relations in non-EU parts of the Danish Realm, Greenland (a beneficiary of the U.S. Generalized system of Preferences) and the Faroe Islands, are generally conducted in the same manner as in Denmark proper.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited and does not exist in the Danish Realm.

d. *Minimum Age for Employment of Children.*—The minimum age for full-time employment is 15 years. The law prescribes limitations on the employment of those between 15 and 18 years of age, and it is enforced by the Danish Working Environment Service, an autonomous arm of the Ministry of Labor. There are no export industries in which child labor is significant.

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 for an adequate standard of living for a worker. 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 Danish Working Environment Service ensures compliance with work place legislation. In addition, Danish law provides for government-funded temporary withdrawal from the labor market through parental, educational or sabbatical leave programs.

Similar conditions of work, except leave programs, are found in Greenland and the Faroe Islands, but the 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. Sick pay and maternity pay, as in Denmark, fall under the social security system.

f. *Rights in Sectors with U.S. Investment.*—Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		206
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	([1])	
Electric & Electronic Equipment	15	
Transportation Equipment	([2])	
Other Manufacturing	78	
Wholesale Trade		572
Banking		([1])
Finance/Insurance/Real Estate		363
Services		113
Other Industries		20
TOTAL ALL INDUSTRIES		1,797

[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 U.S. dollars unless otherwise noted] [1]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP growth (pct.)	−14.8	2.0	[2] 6.0
GDP (at current prices)	1,105.0	1,769.9	[3] 1,379.2
By Sector: (pct.)			
Agriculture	13	11	7
Energy/Water	5	4	3
Manufacturing	33	27	18
Construction	5	6	5
Rents	3	4	6
Financial Services	2	3	3
Other Services	34	34	45
Government/Health/Education	6	10	8
Net Exports of Goods & Services	N/A	N/A	N/A
Real Per Capita GDP (1985 base)	N/A	N/A	N/A
Labor Force (000s)	873.0	853.9	[4] 840.8
Unemployment Rate (pct.)	1.7	2.2	[4] 1.5
Money and Prices:			
Money Supply (M2)	209.0	439.3	493.8
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	15.5	14.8	11.0
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	35.6	[3] 26.8
Exchange Rate (official)	12.9	13.2	12.2
Balance of Payments and Trade:			
Total Exports (FOB)	430.1	806.2	[5] 967.9
Exports to U.S.	8.1	15.2	[5] 16.0
Total Imports CIF	397.5	897.6	[5] 1,214.9
Imports from U.S.	9.4	24.5	[5] 22.3
Aid from U.S.	N/A	0.9	[5] 1.1
Aid from Other Countries	N/A	28.5	[5] 16.3
External Public Debt	29	108	[5] 327

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted] [1]

	1992	1993	1994
Debt Service Payment (paid)	N/A	N/A	[4] 2.1
Gold and Foreign Exch. Reserves	194.0	406.4	[4] 444.5
Trade Balance	32.6	91.4	[5] −247.0
Trade Balance with U.S.	−1.3	−9.4	[5] −6.3

N/A—Not available.
[1] Exchange rate used is 12.2 Estonian kroons to one dollar.
[2] Annualized estimated rate.
[3] Six month data.
[4] Eight month data.
[5] Nine month data.

1. *General Policy Framework*

Estonia is well on the road to economic recovery after its economy bottomed out from post Soviet shocks in the second quarter of 1993. First quarter 1994 data indicate that GNP growth may be as high as six percent on an annualized basis. Estonia's currency, the Kroon, remains stable and fixed to the German Mark at an six to one exchange rate; no devaluations or revaluations are anticipated. Trade continued to expand in 1994, although Estonia fell into a deficit position with imports outpacing exports by approximately 10 percent.

Inflation remained higher than expected, but began to taper off as the year progressed; inflation for 1994 is anticipated to be approximately 40 percent. Estonia's privatization program made commendable progress in 1994, with approximately 50 percent of larger state enterprises now in private hands. Small and medium scale privatization is virtually complete. Housing privatization is just beginning and is moving relatively slowly. Estonia also made some headway in introducing vouchers into its privatization scheme and in creating mutual funds markets for voucher holders. The Government continued to report a balanced budget and due to higher than expected accruals of tax revenues, two supplementary budgets have been adopted. This permitted some modest increases to state pensions and salaries.

2. *Exchange Rate Policies*

Estonia introduced its own currency, the Kroon, in June of 1992. The monetary reform gave a major boost to Estonia's sovereignty and economic progress. The Kroon is frequently cited as the most important factor in creating fertile conditions for economic restructuring and recovery. Estonia's hard currency reserves have close to quadrupled since the introduction of the Kroon, although the money supply has contracted to a modest extent during the latter half of 1994.

Estonia eliminated the last of its capital controls in 1994; there are no restrictions in opening foreign bank accounts either in Estonia or abroad. There are no restrictions in exchanging Kroons for hard currency and repatriating funds from Estonia. The exchange rate policy of Estonia is anticipated to remain unchanged. There are no perceived pressures on the Kroon for a reevaluation (or devaluation). Current policies should continue to exert downward pressure on inflation which is expected to be significantly lower in 1995.

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: Most elements of a modern tax system—such as corporate income tax, personal income tax, and value-added tax (VAT) are now in place. Property taxes were introduced in 1993. New tax laws became effective as of January 1, 1994, which established a 26 percent across the board tax for both personal and corporate income. Tax holidays for foreign investors were phased out as they were viewed as distorting and discriminating against local enterprises; companies already receiving tax holidays were grandfathered, however. An 18 percent VAT is levied on most goods and services. VAT is collected on imports as they enter Estonia; the importer gets VAT reimbursed when the goods are sold in Estonia or reexported. The general trend with Estonian tax legislation has been to decrease taxes associated with production of goods and increase taxes associated with consumption.

Regulatory Policy: Estonia's import and export regime is amongst the most liberal in the world. 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 rapeseed oil (100 percent), values of culture (e.g. cars from before 1950)(100 percent), and metals (ferrous and nonferrous 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, trading of alcohol and tobacco products. Any legal entity registered in Estonia can apply for an operational license.

4. Debt Management Policies

With respect to external debts, Estonia has signed loan agreements with foreign lenders of which 12 have entered into force. The total commitments of foreign loans as of November 1, 1994 was 251.65 million dollars. An additional 75.16 million dollars is in the form of government credit guarantees.

On the basis of 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 some 12 percent in the year 2000. Debt service as a proportion of exports to non-FSU countries is projected to remain in the range of about 5 to 8 percent during the period 1995 to 1999 before rising to just over 10 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 to U.S. exports. Estonia has no major domestic impediments to imports, but minor impediments involving infrastructure deficiencies and financial institutions exist.

Infrastructure Deficiencies: While the Estonian telephone system has improved considerably since the formation of a joint venture with Finland and Sweden, telephone service is still uneven; telephone service in areas outside the capital is greatly inferior. This has been a major factor for the minimal amount of foreign investment that has gone to regions further from the capital, and since foreign investment is a major spur to trade, trade performance in these same regions has suffered.

Financial Institutions: Performance of Estonian banks is uneven, but several larger banks are offering services roughly comparable to western banks. Trade financing is difficult to obtain (particularly for new enterprises without a track record) and high interest rates present some obstacles. Some banks have very limited experience with trade financing options, such as letters of credit.

Investment Barriers: According to the law on foreign investment, foreign investors have the same rights and obligations as domestic individuals or companies. However, in some sectors (mining, power engineering, telecommunications, gas and water supply, transport, telecommunications, banking) 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 subject to VAT. A foreign investor has the right to repatriate profits after paying income tax on 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 Estonian Government has passed several important pieces of legislation designed to bring its intellectual property regime up to modern standards. As of February 5, 1994, Estonia is a member of the World Intellectual Property Organization (WIPO).

Patents: Estonia has taken several significant steps to improve patent regulation. The patent law, which has been in force since May 23, 1994; regulates the legal protection of patentable inventions in the Republic of Estonia. At the same time, the Utility Model Law came into force. On August 24, 1994, Estonia became a party to the Paris Industrial Property Convention and the 1970 Washington Patent Cooperation Treaty. The number of objects exempt from protection has not been determined.

Trademarks: Counterfeiting is not a significant problem at this time. The Trademark Law, passed in Parliament on October 12, 1992, stipulates what is protected by law and sets out judicial proceedings: There have been 15,258 applications for trademark registration since 1992, about 60 percent of them are from foreign companies, including 3,032 U.S. companies. Up to the present, about 7,200 applications have received certificates proving trademark registration; this number includes 61 companies from the United States. The fee for a trademark registration is approximately $250.00

Copyrights: The Copyright Law became effective on December 12, 1992. This law provides for protection of software, cable television publications, records, video

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." On October 26, 1994, Estonia acceded to the Berne Convention for the Protection of Literary and Artistic Works.

8. Worker Rights

a. *The Right of Association.*—The 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, the all-Union Central Council of Trade Unions (AUCCTU). Workers were given a choice as to whether or not they wanted to join the EAKL. While in 1990 the AUCCTU claimed to represent 800,000 members in Estonia, in 1992 the AUCCTU claimed to represent 800,000 members in Estonia, in 1992 the EAKL claimed to represent about 500,000 members, organized in 30 unions. In 1993 EAKL's membership dropped to some 330,000 organized in 27 unions and in 1994 dropped further to about 200,000 organized into 25 unions. The EAKL explains the drop in membership by the breakup of large government-owned enterprises and privatization. EAKL officials estimate that some 40 percent of an approximately 600,000 strong workforce is organized.

The right to strike is legal and unions are independent of the Government and political parties. There were no strikes in 1994. There are constitutional and statutory prohibitions against retribution against strikers. Unions may join federations freely and affiliate internationally. The International Labor Organization has not cited the Government for failure to observe pertinent ILO conventions and standards.

b. *The Right to Organize and Bargain Collectively.*—While Estonian workers now have the legally acquired right to bargain collectively, collective bargaining is still in its infancy. The Government remains by far the biggest employer. According to EAKL leaders, few collective bargaining agreements have been concluded between the management and workers of a specific enterprise. The EAKL has, however, concluded framework agreements with producer associations. The EAKL was also involved with developing Estonia's new labor code covering employment contracts, vacations and occupational safety. The Labor Code prohibits anti-union discrimination, and 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. EAKL officials reported that the courts re-instated a union official who alleged dismissal because of union activity.

No Export Processing Zones have been established.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and is not known to occur. It is effectively enforced by the Labor Inspections Office.

d. *Minimum Age for Employment of Children.*—According to the Labor Law, the statutory minimum age for employment is 16. Minors aged 13 through 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 interferes with studies, and provided that the type of work is included on a list the Government has prepared. 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. In September, the minimum wage was raised from 300 to 450 Kroons per month (36 U.S. dollars]. The minimum wage is not sufficient to provide a worker and family a decent standard of living. About three percent of the work force receive the minimum wage. The average wage is about four times the minimum.

The standard workweek was reduced from 41 to 40 hours in 1993. There is a mandatory 24-hour rest period in the workweek.

According to EAKL sources, legal occupational health and safety standards are satisfactory, but they are extremely difficult to achieve in practice. They are supposed to be enforced by the National Labor Inspection Board, the effectiveness of which may improve with experience. In addition, the Labor Unions have occupational health and safety experts who assist workers in bringing employers in compliance with the legal standards.

The overriding concern of workers during the period of transition to a market economy is to hold on to their jobs and receive adequate pay. Workers have the right to remove themselves from dangerous work situations without jeopardy to continued employment.

FINLAND

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1990 prices)	102.9	79.1	85.0
Real GDP Growth (pct.)	−3.6	−2.0	3.5
GDP (at current prices)[2]	92.7	73.0	81.2
By Sector:			
Agriculture	2.43	2.01	2.2
Other Primary Production	2.71	2.02	2.6
Energy/Water	2.45	1.93	3.3
Manufacturing	20.62	17.83	21.3
Construction	5.81	3.46	3.6
Rents[3]	13.94	11.44	12.2
Financial Services	2.90	3.07	3.4
Other Services	23.91	18.81	19.8
Public Sector	20.25	14.94	15.3
Bank Service Charge[3]	−2.35	−2.50	−2.5
Net Exports of Goods & Services +1.43 +4.62 +7.5.			
Per Capita GDP (1990 prices)	20,364	15,572	16,700
Labor Force (000s)	2,502	2,484	2,485
Unemployment Rate (pct.)	13.1	17.9	18.5
Money and Prices:			
Money Supply (M2) (annual percentage growth)	−0.4	2.0	4.5
Base Interest Rate[4]	9.2	6.9	5.3
Personal Saving Rate	10.4	9.5	6.5
Retail Inflation	−7.3	−1.4	3.0
Wholesale Inflation	−9.9	−0.8	4.5
Consumer Price Index (1990=100)	107.4	109.7	110.8
Exchange Rate (USD 1.00/FIM)	4.48	5.72	5.5
Balance of Payments and Trade:			
Total Exports (FOB)	24.0	23.5	28.0
Exports to U.S.	1.4	1.8	2.1
Total Imports (CIF)	21.2	18.0	20.0
Imports from U.S.	1.3	1.3	1.5
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (central government) (in foreign currency)	23.7	27.2	34.5
Foreign Net Interest Payments	4.4	4.1	3.7
(of which by central government)	0.9	1.6	2.0
Gold and Foreign Exchange Reserves (year-end)	6.6	5.9	9.1
Trade Balance +2.8 +5.4 +8.0.			
Trade Balance with U.S. +0.1 +0.5 +0.5.			

[1] 1994 figures are all estimates based on available monthly data in October 1994, or predictions by the Ministry of Finance.
[2] GDP at factor cost.
[3] "Real estate, renting and business activities" sectoral division is based on UN SIC–95 classification.
[4] Bank of Finland's base rate.

1. General Policy Framework

The Finnish economy is slowly and unevenly emerging from its 3-year recession, during which GDP has declined by a cumulative 13 percent. An economic recovery led by strong exports has been underway since the first quarter of 1994. GDP looks set to grow at least 5 percent in 1994. The recession has resulted in a significant

shakeout of the Finnish economy, including corporate downsizing, increased competition and cutbacks in government services. Also spurring structural change is membership in the the European Union (EU), scheduled for January 1, 1995.

The economic recovery so far has been largely jobless, with unemployment remaining in the high teens amid stagnant domestic demand. These factors, coupled with low levels of business investment, have resulted in declining government revenues and increases in countercyclical spending, producing large budget deficits. Also contributing is continuing government assistance to the banking sector, particularly to the savings bank system. In 1994, the deficit will be about a third of total spending, the same level as 1993. 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 30 percent as compared to its long-term average in the past several years. Inflation has so far stayed at a low level as wholesalers and retailers remain reluctant to pass along increased import prices in the face of depressed domestic demand. However, the money supply (M1) is showing rapid growth due to capital inflows, causing concern among some analysts that inflation could take off in early 1995. Domestic credit is tight as banks seek to regain profitability; as inflation fears mount, the Bank of Finland is threatening to raise interest rates further. Banks remain conservative in their lending practices, particularly to new businesses.

Finnish economic policy is based to a large extent on its forthcoming membership in the EU. The requirements of the EU, for example, have resulted in new competition legislation that is helping to reduce the cartelized nature of many Finnish industries. Legislation which took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The rise in stock market activity is also due to lower domestic interest rates 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.

In October 1994 Finland's citizens voted in favor of EU membership. Membership will occur in January 1995. EC membership and budgetary constraints have brought about some reform in Finland's highly protected agricultural sector. Finland will convert to the EU agricultural regime in 1995, although in the membership negotiations Finland has strived (with some success) to establish special support mechanisms which provide levels of support higher than the EC average. However, the support mechanisms will not be adequate to prevent major structural changes in the agricultural sector. Over the longer term, some of these changes will include a reduction in the number of farmers and consolidation of surviving farms into larger, more efficient units.

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 initiated, 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 anytime soon.

The finnmark has declined by about 35 percent in relation to the dollar and over 15 percent in relation to the ecu since the float was initiated, but in recent months the finnmark has again been gaining strength against both of these currencies. Devaluation 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, but rates (particularly long term rates) remain high. Many analysts expect that in the medium term the

finnmark's value may stabilize near present levels. The slightly strengthened finnmark has eased Finland's external debt burden and has partially offset the inflationary impact of higher commodities prices, but has not had a measurable impact on export competitiveness.

3. Structural Policies

Finland replaced 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, are now subject to the new VAT in conformity with EU practice. The government decided to keep the basic VAT rate at the same rate as the turnover tax, 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 are not 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 tax rate of 25 percent 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 was 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, has resulted in a strong revival of the Finnish stock market and greater corporate use of equity rather than debt financing. It has 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 been reducing the government stake in several 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 begun to reduce subsidies in line with falling government revenue and the requirements of EU membership. The government has set the goal of reducing direct subsidies and replacing them 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. Gross public debt (EMU definition) continues to rise, and is projected in the 1995 budget at 78.5 percent (in 1990 gross public sector debt stood at only 27 percent of GDP). Finnish corporations, formerly heavy users of foreign capital, are now reducing their foreign obligations. However, financing requirements of the central government have not diminished. 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 (albeit at slightly higher risk premiums) 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 three years.

5. Significant Barriers to U.S. Exports

In most cases, effective January 1, 1995 Finland will adopt the EU's overall trade regime, including the EU tariff schedule. The agricultural sector will remain the most heavily protected area of the Finnish economy. In 1993 Finland 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 cheaper foreign imports. Surpluses of agricultural products are usually disposed of on world markets through government and producer-financed export subsidies. The government will end direct government financing of export subsidies as part of its EU accession terms. Import licenses are no longer required for any products, although some textile imports from Far Eastern suppliers are covered by quotas. Finland will phase in EU textiles tariffs over a 3-year period starting in January 1995.

Finland's adoption of the EU tariff schedule will result in increased barriers to U.S. exporters in several key categories including agriculture, chemicals, and elec-

tronics. Preliminary analysis indicates that semiconductors will be the U.S. export category most adversely affected. Tariffs for several key semiconductor types will increase from the present 0 percent to 14 percent under the EU tariff schedule. In late 1994 the U.S. Government entered into negotiations with the EU under Article 24:6 of the GATT, seeking compensation for lost exports as a consequence of Finland's EU accession.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives has gone into 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 representative office in Finland, but will have to have a claims representative there. In 1994 the government opened up long distance telephone service within Finland to competition. The government requires that the Finnish Broadcasting Company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign productions. Upon accession to the EU, 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 and has indicated its opposition to quotas to the EU.

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. EU membership 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 Agreement on Government Procurement (Procurement Code) and has a good record in enforcing Code requirements in letter and spirit. In the excluded sectors, particularly defense, countertrade 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.

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 directive dealing with reselling videocassettes has been implemented, as has the EU software directive. The directive has made 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 process patent protection is applied.

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 traditionally has been conducted according to national guidelines agreed among employers, the three central trade union organizations, and the government, but in the past two years wage negotiations have been more decentralized. Workers are effectively protected against antiunion discrimination which is prohibited by law.

c. *Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the constitution and is not practiced.

d. *Minimum Age for Employment of Children.*—Sixteen is the minimum age for full-time employment (eight hours per day). Children that are fifteen 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		127
Food & Kindred Products	1	
Chemicals and Allied Products	52	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		141
Banking		(1)
Finance/Insurance/Real Estate		1
Services		7
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.

FRANCE

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1980 prices)	683	632	657
Real GDP growth (pct.)	1.2	−1	1.8
GDP (at current prices)	1,322	1,253	1,325
GDP by Sector: [2]	1,222	1,159	N/A
Agriculture	37	29	N/A
Processed Food	37	38	N/A
Energy/Water	53	53	N/A
Manufacturing	217	194	N/A
Construction	69	64	N/A
Rents	115	116	N/A
Financial Services	57	56	N/A
Retail Trade/Other Non-Financial Services	471	446	N/A
Government/Non-Profit Services	216	213	N/A
Statistical Adjustment	−51	−50	N/A
Net Exports of Goods & Services	18	27	39
Real Per Capita GDP (1980 prices)	11,920	10,978	11,344
Labor Force (avg/000s)	25,097	25,159	25,234
Unemployment Rate (avg/pct.)	10.3	11.6	12.3
Money and Prices (annual percentage growth): [3]			
Money Supply (M3)	6.0	−0.9	−3.5
Base Bank Lending Rate (yr-end)	10.0	8.1	7.7
Personal Savings Rate (avg)	13.9	14.1	13.0
Retail Inflation (avg)	1.9	2.1	1.7
Intermediate Good Prices (avg)	−1.7	−2.8	0.9
Consumer Price Index (1990=100/avg)105.7	107.9	109.7	
Exchange Rate (USD/FF) [4]	5.3	5.7	5.6
Balance of Payments and Trade:			
Total Exports (FOB) [5]	236.0	210.0	234.0
Exports to U.S. [4,6]	15.0	15.0	17.0
Total Imports (CIF) [5]	240.0	203.0	221.0
Imports from U.S. [4,6]	20.0	18.0	19.0
Trade Balance (CIF/FOB) [5]	−4.0	7.0	13.0
Balance with U.S. [4,6]	−5.0	−3.0	−2.0
Gold and Foreign Exch. Reserves	56.0	51.0	57.0

N/A—Not available.
[1] OECD forecasts unless otherwise indicated.
[2] Excludes value added and other taxes.
[3] June 1994 data.
[4] 1994 estimate based on first nine months average and assumption of fourth quarter equal to September average.
[5] Merchandise trade–1994 data are for first seven months.
[6] Department of Commerce figures.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with an economy about one-fifth the size of that of the United States'. The service sector, including government and financial services, accounted for 54 percent of output in 1993. Industry and agriculture provided 38 percent and 3 percent, respectively.

Economic growth slowed considerably between 1991 and 1993, after a period of healthy expansion between 1988 and 1990. Growth began to pick up significantly beginning in 1994, with real gross domestic product (GDP) expanding 0.7 percent and 1.0 percent during the first and second quarters, respectively. Imports have increased as well, with real imports of goods and services increasing 3.2 percent and 2.8 percent during the first and second quarters, respectively. Nominal merchandise imports from the United States grew over five percent during the first quarter of 1994 and remained steady during the second quarter, after falling by seven percent

each year in 1992 and 1993. Real GDP is likely to grow about two percent in 1994 and three percent in 1995; the Organization for Economic Cooperation and Development (OECD) forecast in June 1994 that real imports of goods and services would increase close to three percent in 1994 and six percent in 1995. Unemployment, on the other hand, is expected to remain high, hovering around 12.5 percent for 1994.

Inflationary pressures remain well contained. The annual inflation rate for consumer prices fell from 3.6 percent in 1989 to 1.6 percent by September 1994, the lowest rate in France in 37 years. Continued wage restraint due to high unemployment is likely to keep inflation from increasing, despite stronger growth.

Low inflation has given French producers a price advantage in overseas and domestic markets. Due in part to this phenomenon, France's merchandise trade balance (cif/fob basis) changed from a deficit of FF 20 billion in 1992 to a record FF42 billion surplus in 1993, according to French customs statistics. Trade in manufactured goods registered the largest increase, from a surplus of FF7 billion to FF54 billion. France's surplus with other European Union (EU) countries increased from FF17 billion to FF32 billion. With non-EU OECD countries, France reduced its deficit from FF60 billion to FF31 billion, primarily due to a decrease in its deficit with the United States, which fell to FF16 billion from FF26 billion in 1992 because of strong U.S. growth. Much of the overall trade surplus can be attributed to weak domestic demand, and in particular, to persistently weak corporate investment in imported capital goods. France is likely to run another large merchandise trade surplus in 1994, although slightly lower than the 1993 figure.

Due primarily to the merchandise trade surplus, France ran a current account surplus of FF59 billion in 1993. The surplus in tourism receipts was a record FF60 billion. In contrast, the deficit on net investment income increased to FF45 billion in 1993 from FF41 billion in 1992, due to the continued inflow of foreign portfolio investment and higher interest rates relative to rates in other industrialized countries. Due to a lower merchandise trade balance and lower interest payments to foreigners (resulting from a large outflow of foreign portfolio investment at the beginning of 1994), the current account surplus is likely to fall in 1994.

Since France is a member of the EU, its imports are subject to a common external tariff and to the restrictions of the Common Agricultural Policy. As the EU continues to implement its "single market" program to remove all barriers to the free internal circulation of goods, services, capital and labor, jurisdiction over a growing number of economic areas, including certain aspects of tax and investment policy, will be transferred to Brussels from Paris.

Since 1991, the sharp drop in economic activity has led to a dramatic decline in government revenues. This, coupled with increased spending on unemployment, retirement, health care, and interest payments, has resulted in soaring budget deficits. The central government budget deficit as a percentage of GDP rose from 1.9 percent in 1991 to 4.5 percent in 1993, and is expected to be close to four percent in 1994. The general government budget deficit, which includes federal, local, and social security budgets, rose from 2.2 percent of GDP in 1991 to 5.8 percent in 1993, and is expected to be 5.6 percent in 1994.

Like its G–7 counterparts, the Bank of France conducts its monetary policy primarily by adjusting official rates and through open market operations. During most of 1993, French money supply (M3) grew far less than the Bank of France's target growth rate of 4–6.5 percent, and fell almost one percent between the fourth quarters of 1992 and 1993. The Bank of France estimated that had it not been for the large transfer of assets from money market funds (which are included in M3) to stocks and long-term bonds, in response to tax incentives and declining interest rates, M3 would have increased 1.5–2 percent during this time, still far below its target.

2. Exchange Rate Policies

Within the established limits of the European Exchange Rate Mechanism (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 ERM and as part of broader international economic policy a series of exchange rate crises to maintain high short term interest rates to keep the franc within its ERM bands. Even after the bands were widened in August 1993, the Bank maintained high rates while it replenished the foreign exchange reserves it spent in July to defend the franc. Beginning February 1994, the Bank followed the German Bundesbank in gradually lowering official rates. It is expected to continue coordination efforts among industrialized countries, including the United States.

Throughout much of 1992 and the first half of 1993, the Bank of France was forced by high German interest rates andto maintain a 20–40 basis point spread between French and German official rates to prevent further serious pressures on the franc. The interest rate on three-month interbank loans has fallen from 12.1 percent to 5.6 percent between February 1993 and August 1994. However, the average interest rate on long-term government bonds, after declining from 10.6 percent in September 1990 to less than 5.8 percent in October 1993, is expected to rise to 8.3 percent by October 1994, due in part to rising U.S. interest rates.

The Balladur government has continued the "franc fort" (strong franc) policy of its predecessors. The government's objective is to lower the cost of imports and keep 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 to ensure further progress toward European Monetary Union (EMU). The Franc appreciated 3.0 percent in nominal terms against other OECD currencies between September 1993 and September 1994. However, factoring in France's low inflation rate, the Franc only appreciated 1.7 percent in real terms. Compared to the U.S. dollar, the franc appreciated by 5.2 percent in real terms during this period.

3. Structural Policies

Since it submitted its first budget in mid-1993, the Balladur government's fiscal strategy has been to reduce the budget deficit in the long term (primarily by raising taxes and controlling spending), but offset the immediate restrictive effects through temporary stimulus measures. In addition, many of the French government's fiscal policy proposals in 1993 and 1994 were designed to offset, through state aid, effects of high real interest rates in sectors such as real estate and automobiles where consumption is dampened strongly by high rates.

During 1993, the Balladur government's assortment of supplemental budgets cut corporate taxes by approximately FF50 billion for 1993–94, while increasing taxes on households for these two years by FF100 billion. The government's priority was to limit spiraling unemployment by stopping the hemorrhage of bankruptcies, particularly among labor-intensive small businesses. The government decided to change course in 1994, and to try to boost short-term economic growth by stimulating household consumption. In its 1994 budget, the government reduced personal income taxes by FF19 billion a year. The government also offered several incentives to induce households to withdraw funds from savings accounts, in the hopes of reducing savings and boosting consumption. However, the decrease in income taxes only partially offset the 1993 increases in excise taxes and in the general social contribution (CSG), a supplemental tax on all earned and unearned income. As a result, the government expects total taxes as a percentage of GDP will increase from 43.6 percent in 1993 to 44.5 percent in 1994, before falling to 44.2 percent in 1995. This remains one of the highest ratios among industrialized countries.

In March 1993, the French government began a massive privatization program, and has already sold some of the largest and best known government-owned corporations. A seven-member commission decides the minimum price for the shares to be sold and chooses the core of stable investors for each privatization; and the Economics Ministry decides the percentage of shares to be sold, the proportion to be sold in foreign financial markets, and the size of "core" shareholdings.

To meet deficit reduction targets in its 1994 and 1995 central government budgets, the government has essentially frozen non-interest spending, and is counting on receipts of over FF100 billion in privatization revenues. Fiscal policy, or at least central government spending, is likely to remain tight for many years to come, as the government seeks to meet common macroeconomic criteria agreed among EU members in the Maastricht Treaty: general government budget deficits of no greater than three percent of GDP, and a debt to GDP ratio of no more than sixty percent. In 1993, the government submitted, for the first time, a multi-year deficit reduction plan. In the revised 5-year plan in its 1995 budget, the government maintains the real freeze on government spending, and extends it to 1998. Real non-interest spending would be cut by 0.6 percent in 1996 and 1997, and by 0.4 percent in 1998, the longest and largest sustained reduction in non-interest French government spending since the end of World War II.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. As a member of the G–10 group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and West Africa.

5. Significant Barriers to U.S. Exports

U.S. companies sometimes complain of complex technical standards and of unduly long testing procedures. Requirements for testing (which must usually be done in France) and standards sometimes appear to exceed levels reasonable to assure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment, medical/veterinary equipment/products and agricultural phytosanitary standards.

An area where French trade policy is clearly discriminatory is in audiovisual trade. The 1989 EU Broadcast Directive requiring a "majority proportion" of programming to be of European (i.e. EU or Central European) origin was incorporated into French legislation on January 21, 1992. France, however, goes beyond this rule, specifying 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 European origin and that 50 percent be originally produced in French. The new 60 percent European/40 percent French quotas are applicable both during a 24-hour day, and during prime time slots. The prime time rules go beyond the requirements of the EU Broadcast Directive and limit the access of U.S. programs to the French market.

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 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 qualify for a "short-form" exam provided they are able to prove that the foreign state or territory in which they practice allows French lawyers to practice law "under the same conditions." Failing that, they must 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 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 imposed on non-EU lawyers.

Since September 1988, foreign investors establishing new businesses in France are no longer subject to advance notice and approval requirements. However, there are still several administrative procedures related to acquisition of French firms that burden foreign investors. Unless firms are controlled by French nationals or "established" EU investors, they must receive prior approval from the Ministry of Economics in order to purchase existing French businesses valued at more than FF50 million or having more than FF500 million in sales. To qualify as an "established" EU-controlled firm, a business must have annual sales of more than FF1 billion and have been in business for at least 3 years. EU-controlled firms not qualifying as "established" and non-EU controlled firms purchasing smaller French entities are required to notify the Ministry in advance. The Ministry can block large acquisitions deemed not to be in the national interest, as well as any acquisition, irrespective of size or nationality of the investors, which the Minister sees as a threat to public health, public order or national security.

There are several restrictions on foreign holdings in French firms that are privatized. A December 1993 privatization law prevents the government from selling more than twenty percent of a firm's capital to non-EU investors at the time shares are first sold. The law does not prohibit private EU-investors from selling their shares to non-EU investors thereafter, and shares held by non-EU investors before the law went into effect are not affected by the 20 percent limit. The Balladur government also gave the privatization commission the option of waiving the 20-percent limit if the purchase is part of an industrial, commercial, or financial cooperation agreement. This option has not yet been exercised in privatizations to date.

Through "golden shares" in key companies being privatized, the government retains the following rights: to block the sale of any assets "essential to the national interest;" to prevent certain investors from purchasing additional shares; and to exert significant control over company management, even after privatization is completed. Finally, any investor seeking to own more than five percent of outstanding shares of a privatized company in the health, security or defense sectors will be required to seek the approval of the Economics Ministry.

The French government has notified the OECD that it treats foreign investors differently than domestic investors and may not provide national treatment in the following sectors: agriculture, aircraft production, air transport, atomic energy, audio-

visual, accounting and financial services, defense, insurance, maritime transport, road transport, publishing, telecommunications, and tourism.

France is a party to all the relevant GATT codes, including those on government procurement and standards.

6. Export Subsidy Policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the 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.

There are virtually no direct French government subsidies to agricultural production. Direct subsidies come primarily from the budget of the European Union. The French government does offer indirect assistance to French farmers in many forms, such as easy terms for loans, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

France is a strong defender of intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property is protected by copyrights. France 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. By virtue of the Paris Convention and the Washington Treaty Regarding Industrial Property, U.S. nationals have a "priority period" after filing an application for a U.S. patent or trademark, in which to file a corresponding application in France.

8. Worker Rights

The French constitution guarantees the right of workers to form unions. Although union membership has declined to ten percent of the workforce, the institutional role of organized labor is far greater than its numerical strength might indicate. The French government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized. The principle of free collective bargaining was reestablished after World War II, and subsequent amendments in labor laws encourage collective bargaining at the national, regional, local, and plant levels. French law prohibits anti-union 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 of approximately $6.50 per hour. The legal work week is 39 hours long, and overtime is restricted to 9 hours per week. 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 three 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		973
Total Manufacturing		13,257
Food & Kindred Products	1,267	
Chemicals and Allied Products	4,536	
Metals, Primary & Fabricated	488	
Machinery, except Electrical	2,237	
Electric & Electronic Equipment	359	
Transportation Equipment	700	
Other Manufacturing	3,672	
Wholesale Trade		4,733
Banking		364
Finance/Insurance/Real Estate		2,374
Services		996
Other Industries		868

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	23,565

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

GEORGIA

Key Economic Indicators

	1992	1993	1994
Income, Production and Employment:			
GDP (1990 prices/bil. rubles)	9.87	5.92	N/A
GDP Growth (pct.)	−50.1	−40.0	N/A
GDP (current prices/bil. rubles)	149.2	1,522.9	N/A
By Sector:			
Agriculture	77.7	N/A	N/A
Industry/Manufacturing	26.1	N/A	N/A
Energy/Construction	9.3	N/A	N/A
Rents	N/A	N/A	N/A
Financial Services (crediting)	6.8	N/A	N/A
Other Services	N/A	N/A	N/A
Government/Health/Social. Security/Education/Defense	48.3	N/A	N/A
Net Export of Goods & Services	N/A	N/A	N/A
Per Capita GDP (current prices/rubles)	27,300	280,800	N/A
Labor Force (000s)	3,138	3,100	N/A
Unemployment Rate (pct.)	6.1	8.4	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2/bil. coupons)	72	1,834	N/A
Base Interest Rate (pct.)	0	40	700
Personal Saving Rate	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	846	11,372	40,601
Exchange Rate			
Official (rubles/USD)	193.2	0	0
Official (coupons/USD)	0	12,280	824,928
Balance of Payments and Trade: (Millions of U.S. dollars unless otherwise noted)			
Total Exports (FOB)[1]	86.80	466	465
Exports to U.S.[2]	7	0	0
Total Imports (CIF)[1]	183.20	795	739
Imports from U.S.[2]	15	37	87.6
Aid from U.S.	0	159	0
Aid from Other Countries	0	0	0
External Public Debt	N/A	860	N/A
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	N/A	N/A
Trade Balance[1]	−96.40	−329	−274
Trade Balance with U.S.[2]	−8	−37	−87.6

N/A—Not available.
[1] Figures for 1993 and 1994 are U.S. Treasury Department estimates.
[2] 1994 Figures are estimates based on January-October data.

1. General Policy Framework

The economic reforms being carried out by the Government of Georgia aim to reduce inflation to single digits by the end of 1994, arrest the decline in output by accelerating systematic reforms, promote private sector activities, improve the gross external reserve position of the National Bank, and provide social assistance to society's most vulnerable groups. The IMF granted Georgia a $40 million Structural Transformation Facility loan in December 1994 to support its reform program.

However, in 1994 economic decline continued in Georgia. In July, only 80 percent of 1,362 registered industrial enterprises reported to the government. Total industrial production fell by 49.5 percent compared to the same period last year. Production of paper, manganese, wool yarn, milk, and soap increased, while production of the 70 remaining Georgian products decreased. Production declined due to interruptions in energy supplies from Russia, Azerbaijan and Turkmenistan. In October 1994, Turkmenistan cut the delivery of gas on a credit basis because of unpaid Georgian bills. According to most estimates, the underground economy is greater in size than the official economy.

The crisis-in-payment system in Georgia and between Georgia and other NIS countries made it very difficult to maintain trade links with other countries of the former Soviet Union. At the same time, a chronic fiscal deficit and the National Bank's subsidizing monetary policy led to hyperinflation with prices increasing roughly 60 percent a month from mid-1993 through mid-1994. About 80 percent of the deficit was caused by spending on electricity, natural gas and bread. Spending on education, science, and administration did not exceed three percent of GDP. Under the IMF program, the cash budget deficit was to be reduced to 3.8 percent of GDP, bringing the deficit for the year down to 9.1 percent of GDP, still quite high but about a quarter the 1993 figure.

Since September the value of the coupon has fluctuated significantly, but has maintained an upward trend, rising from 2.5 million coupons = 1 USD to 1.5 million coupons = 1 USD. High inflation was responsible for the currency's collapse in value during the first three quarters of 1994, which increased the use of rubles and U.S. dollars in Georgia. Improved financial policies seem to have begun to reverse this trend, as reflected in the improved exchange rate, and may increase the public's willingness to use the national currency.

2. Exchange Rate Policy

In July 1993 the National Bank of Georgia modified its fixed official exchange rate system after the Central Bank of Russia withdrew Soviet rubles from circulation and moved to a floating exchange rate regime. The official exchange rate of the interim currency, the coupon, against other major currencies is determined by the Interbank Currency Exchange. This is the only currently operating exchange market, established in April 1993 as a counterbalance to the Caucasian Exchange, where the actual exchange rate was defined. The banknote rate is defined at the currency exchange kiosks, which need to have special permission to do so. The banknote rate exceeds the cash rate usually by 15–18 percent.

In October 1993 the coupon traded at 21,000 = 1 USD, and in October 1994 the rate was 2.4 million coupons = 1 USD. The Interbank Exchange operates twice a week. Gross volume of coupon-dollar trading increased from 50,000 USD to 250–300,000 USD a week. There is a requirement to surrender 35 percent of foreign exchange earnings at the exchange rate determined by the Interbank market auction. Nonresidents may hold both foreign exchange and local currency accounts and may freely transfer these balances offshore. However, individual Georgian banks may have difficulty transferring large amounts due to a foreign exchange shortage.

As a rule, the National Bank of Georgia is the only seller of hard currency on the exchange market. However, trends since September 1994 show that since Interbank Currency Exchange is the only operating currency market, banks are more willing to participate as sellers.

Neither the foreign exchange system in Georgia nor exchange controls have any impact on the price competitiveness of U.S. exports.

3. Structural Policies

Pricing Policies: The government freed most prices in February 1992. In response to IMF and World Bank requirements, the Cabinet of Ministers of Georgia increased prices of electricity and natural gas to world market levels, and bread prices are scheduled to be raised to reflect full market cost by the end of December.

Tax Policies: The parliament adopted a new tax system in December 1993 which is composed mainly of four taxes: a 14 percent value-added tax (VAT); a corporate profit (income) tax with a 20 percent rate for enterprises, a 10 percent rate for construction enterprises, and a 35 percent rate for banks; excise taxes of up to 90 per-

cent on the price of goods; and a personal income tax, progressive in nature but not strictly enforced. Other important sources of government income are customs duties, a two percent import tax, an eight percent export tax rate, a 20 percent tax for bartered goods, and a fixed tax levied on the currency exchange kiosks. The government plans to increase VAT up to 20 percent, import tax up to 12 percent, and to eliminate export tax.

Tax collection is severely undermined because of inflation, decline of government authority and corruption. In the first quarter of 1994, VAT and excise taxes constituted only 2.3 percent of GDP. In 1994 the government ruled without an adopted budget, with a 46 percent of GDP deficit in the first half of the year, basically financed by borrowing from the National Bank. In response to the demands of the IMF and the World Bank, the Government of Georgia presented a zero deficit budget for the fourth quarter of 1994. However, about 50 percent of income is contributed by grants and from borrowing abroad.

Government investments are still high, contributing 67 percent of total investments, though reliable information on private investments is not available. New investment regulations remain in draft form. In March 1994 the Bilateral Investment Treaty was signed with the United States. The treaty is pending ratification by both countries.

Only 25.8 percent of the enterprises approved for privatization by the State Property Control Ministry were privatized by May 1994. A total of 1,152 enterprises, mostly in the trade or service sectors, sold for 11 billion coupons (roughly $40,000).

In order to accelerate the privatization process, a new decree by the head of state on privatization allows employees to directly purchase 51 percent of company shares (except in strategically important industries). About 380 large enterprises were privatized by November 1994.

The government regulates the export of strategic commodities produced in Georgia by a system of quotas and licenses, which limit or prohibit export of certain types of goods.

4. Debt Management Policies

Official statistics on the national debt do not exist. Some officials have set the amount of debt at $870 million, including $380 million owed to Turkmenistan, $71 million owed to Russia, $141 million owed to the EU, $86 million owed to Austria, $40 million owed to Turkey, $24 million owed to Kazakhstan, $11 million owed to Armenia, $8 million owed to Azerbaijan, and $1 million owed to the Netherlands.

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: medical equipment, medicines and raw materials for medicines, vegetation protection chemicals, industrial scrap materials, drugs, and weapons and ammunition.

According to an executive decree, all commodities imported to Georgia must have an insurance certificate from the Georgian insurance company Aldagi. This decree contradicts another government decree on the limitation of monopolistic activity and development of a competitive environment, and is expected to be opposed by the Prosecutor General's office.

Import Licenses must be obtained through the Committee on Foreign Economic Relations on the basis of a preliminary decision by the proper branch ministry. Once ratified, the U.S.-Georgia bilateral investment treaty will provide substantial assurances to U.S. investments.

The exporting company must also submit to the customs office at the border and to the customs district office at the cargo's destination the following: pro forma invoice or bill of lading for sea transport or bill of board for air transport, export packing list, and a contract for exporting goods. The documentation from cargo origin country, certificate of quality and sanitary certificates for food products may also be required at the customs office. In addition, according to the new decree, persons taking abroad more than $500 must submit a certificate from a bank.

Importers pay a two percent customs duty and a 0.2 percent processing fee, as well as applicable VAT and excise taxes on goods from outside the Commonwealth of Independent States (CIS).

The Georgian Customs Department has submitted to the parliament newly proposed customs tariffs and draft laws on customs duties and on transit taxes, and a customs code. The import tax is expected to be increased from 2 to 12 percent.

The effect of barriers to U.S. trade and investment in Georgia is minimal. The current law on foreign investment does not specifically hinder U.S. investment. The only barrier to foreign investments is lack of appropriate legislation and absence of a law regarding owning land. Currently land cannot be purchased by a foreign in-

vestor. A new law on investments is planned for passage by the parliament by the end of 1994. A U.S.-Georgia trade agreement providing for reciprocal most-favored-nation status was signed and entered into force in late 1993. Outmoded and inadequate infrastructure and the absence of first-class bank guarantees create barriers to trade and investment in Georgia.

6. Export Subsidies Policies

Georgia is not a member of the GATT Subsidies Code. The government does not provide any type of significant export subsidy. On the contrary, it discourages exports through licensing requirements and quotas on a number of products. The export of some types of goods is prohibited.

7. Protection of U.S. Intellectual Property

Laws protecting patents and trademarks 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 copyright protection law in effect, and the Georgian government, while working on one, does not expect to issue it by the end of 1994. Georgia is not listed on any special 301 watch lists, nor is it identified as a priority foreign country.

In January 1994 Georgia became a party to the Paris Convention for the Protection of Industrial Property, a member of the World Intellectual Property Organization, and a party to the Patent Cooperation Treaty. The new adjusted laws have not been completed.

Patent and trademark protection do not appear to pose substantial problems in Georgia. Systematic cases of patent infringement do not exist, although brand counterfeiting is known to have taken place, though 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 $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 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. Because of the very low levels of U.S. trade and investment with Georgia, the impact of any of Georgia's intellectual property practices on U.S. trade and investment is minimal.

8. Worker Rights

Georgia relies on old Soviet legislation which guarantees most major labor rights, although efforts to refine these laws began in late 1993. Resources devoted to investigation of complaints and enforcement of rights, centered in the Labor Ministry, are slim. In 1993 there was little interest in labor activity, and in 1994 there were few worker strikes demanding salary increases.

a. *The Right of Association.*—The labor code allows workers to form unions and associations freely. These associations must be registered with the Ministry of Justice. In late 1993, the Georgian government had planned 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 sector organizations, is active in Georgia, but steadily lost membership throughout 1993 and 1994.

b. *The Right To Organize and Bargain Collectively.*—The labor code also grants workers the right to organize and bargain collectively. This right is freely practiced in the Georgia. 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. Children between 14 and 16 years are allowed to work a maximum of 30 hours a week. The minimum age is widely respected, and Georgian officials know of no sectors where the rule is violated.

e. *Acceptable Conditions of Work.*—Acceptable conditions of work generally follow the old Soviet pattern. A nationally mandated minimum wage applies to the government sector. In November 1994, it was revised to one million coupons a month. The labor week is 40 hours, although the government adopted 35 hour weeks for the winter period from November 15 to February 15. 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, there are 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 U.S. dollars unless otherwise noted]

	1992*	1993*	1994*[1]
Income, Production and Employment:			
Real GDP (1991 prices)	1,870.1	1,743.0	1,824.5
Real GDP Growth Rate	2.2	−1.1	2.5
GDP by Sector: (1991 prices)			
Agriculture/Forestry/Fishing	25.6	21.7	N/A
Manufacturing/Mining/Construction	717.9	656.6	N/A
Trade/Transportation	281.9	268.6	N/A
Services	614.9	634.0	N/A
General Government/Households	271.9	267.7	N/A
Net Exports of Goods & Services	−16.5	−14.7	−7.3
Real GDP Per Capita (USD)	23,203	21,471	22,316
Civilian Labor Force (millions)	38.9	38.7	38.5
Unemployment Rate (annual average)[2]	7.7	8.8	9.8
Money and Prices (annual percentage growth):			
Money Supply (M3)[3,4]	9.6	7.5	7.9
Commercial Interest Rate[3]	12.03	10.16	9.43
Personal Savings Rate[5,6] /5,6	13.9	13.3	12.5
Retail Inflation[6]	2.5	2.1	1.2
Wholesale Inflation[6]	0.1	−1.1	1.5
Consumer Price Inflation[6]	4.0	4.2	3.0
Exchange Rate (annual average) (deutsch marks/USD)	1.5595	1.6544	1.62
Balance of Payments and Trade:			
Total Exports (FOB)	430.4	379.9	413.6
Total Exports to U.S.[7]	28.8	28.6	30.6
Total Imports (CIF)	408.8	343.1	364.2
Total Imports from U.S.[7]	21.2	18.9	18.5
Gold and Foreign Exch. Reserves[3]	3.8	45.6	50.0
Trade Balance	21.6	36.9	49.4
Trade Balance with U.S.[7]	7.6	9.6	12.1

N/A—Not available.
*All Germany.
[1] Estimates based on latest available data.
[2] Percent of civilian labor force.
[3] 1994: latest available data.
[4] Change 4th qtr./4th qtr.; for 1994, seasonally adjusted annual rate, through September 1994 over 4th qtr. 1993.
[5] Bundesbank definition.
[6] Western Germany only; all German GDP data are incomplete.
[7] Official U.S. figures. 1994 based on first three quarters.

1. *General Policy Framework*

The German economy is the world's third largest and attained a GDP equivalent to USD 1.9 trillion (in nominal terms) in 1993. That same year was marked by a recession in which the German economy contracted by 1.1 percent. In late 1994, the economy is back on a growth path, and the consensus forecast is for 2.5 percent real growth this year and next. The German "social market" economy is organized on free market principles and affords its citizenry a greater degree of unemployment, health and educational benefits than most other industrialized countries. One of the world's foremost trading nations, Germany since reunification in 1990 has experienced a substantial decline in its foreign trade surplus due to the demands of inte-

grating the economy of the erstwhile GDR. The German parliament has ratified the Uruguay Round agreement.

German fiscal policy also has been driven by the financial exigencies of reunification. The government extended the country's generous social welfare system to eastern Germany and committed itself to quickly raise eastern German production potential via public investment and generous subsidies to attract private investment. The budgetary cost of these policies was increased by the decision to rapidly raise eastern German wages to western German levels. This resulted in heavy job losses and greatly increased the government's unemployment compensation costs, as well as wage costs in government-owned firms being prepared for privatization. As a result, western Germany has had to transfer vast sums to eastern Germany on the magnitude of DM 150 billion annually, or 5.0 percent of all-German gdp. These transfers accounted for the dramatic ballooning of public sector deficits and borrowing. The recession of 1992/93 further contributed to a widening fiscal deficit as tax revenues weakened and anticyclical expenditures rose.

Despite the recession and the fiscal demands of reunification, the German government has sought to narrow the federal budget deficit through a variety of tax and fee increases, public spending restraint and cuts in certain social benefits. Nonetheless, the overall public sector borrowing requirement (broadly measured to include all levels of government as well as hitherto "off-budget" funds and agencies) will be some DM 180 billion in 1994 and is expected to be only slightly smaller in 1995.

In recent years, relatively high rates of inflation (the CPI rose an average 4.1 percent in 1992 and 1993) and money growth, as well as concern over wage developments and fiscal deficits, have preoccupied the German central bank (Bundesbank). The Bundesbank places overriding importance on price stability and thus responded to the rising inflation in 1991/92 by hiking short term interest rates, which peaked in July 1992 at post-war highs. Since then, the central bank discount rate has declined by 4.25 percentage points, with the most recent cut occurring in May 1994. In 1993–94, wage settlements were moderate and inflation has declined to about three percent. However, the Bundesbank has continued to be concerned about rapid monetary growth.

The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which normally is ten years (for the first time in over a decade, the government issued a 30-year bond in January 1994). The Bundesbank's primary monetary policy tool is short-term liquidity provided to the banking system primarily via repurchase operations. It also provides financing to the banking system via discount and Lombard facilities, and it sets minimum reserve requirements for the banks. The discount rate as of October 31, 1994 was 4.5 percent.

2. Exchange Rate Policies

The Deutsche mark is a freely convertible currency, and the government does not maintain exchange controls. Germany participates in the exchange rate mechanism of the European Monetary System. The Bundesbank intervenes in the foreign exchange markets infrequently, usually in cooperation with other central banks in order to counter disorderly market conditions.

3. Structural Policies

Since the end of the second world war, German economic policy has been based on a "social-market" model which has been characterized by a higher level of direct government participation in the production and services sector than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions has worked to limit market entry by not only foreign firms but also by German entrepreneurs. Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its EU partners, the shock of German unification and a perceived decline in competitiveness in its traditional manufacturing industries, has forced a rethink of the German post-war economic consensus in the so-called Standort Debate.

As a result of this debate, numerous structural impediments to the continued growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

—An excessively rigid labor market

—A regulatory system which discourages new entrants especially in the services sector

—High taxes and social charges

—Lack of risk and venture capital for start-up firms

In recognition of these problems, the government has been pursuing a program of reforms since the mid-1980's focusing on tax reform, privatization and deregulation. Within the last year, the reorganization of the German Federal Railroad, and the operating entities of the German Federal Post into stock companies was completed. The federal government also reduced its majority holdings in Lufthansa to less than 36 percent with the objective of selling the entire stake by the end of 1995. U.S. firms are likely to benefit from these developments as purchasing decisions are driven more by commercial criteria than in the past. It is also expected that the introduction of competition in some of these formerly protected sectors will eventually result in lower costs for the users.

Despite the progress in recent years, lack of competition in several protected sectors continues to drive up business costs in Germany. The service sectors which continue to be subject to excessive regulation and market access restrictions include communications, energy, retail distribution and insurance. A government proposal to modify or eliminate the so-called "rebate and premium" laws which limit firms' pricing and marketing flexibility failed to pass the German parliament in the summer of 1994. The government has indicated it may reintroduce legislation to reform these laws in the next session. Opposition from small shop owners also derailed an attempt to revise Germany's highly restrictive regulations on store hours. Irrespective of short-term German government reform priorities, the EU is expected to continue to pressure its member states to reduce barriers to trade in services within the Community. U.S. firms, especially with operations in other EU states, will likely benefit from EU market integration efforts over the long term.

4. Debt Management Policies

Germany has recorded current account deficits since 1991 due to a dramatic drop in the country's traditionally strong trade surplus, related in part to strong eastern German demand, and exacerbation of Germany's services account deficit because of the substantial foreign borrowing undertaken to finance the costs of unification. Nonetheless, due to large current account surpluses from the 1970's through 1990, Germany remains the world's second largest creditor, with net foreign assets estimated at some USD 275 billion at the end of 1993. The current export-led recovery is widely projected to improve both the trade surplus and the current account balance.

5. Significant Barriers to U.S. Exports

Germany is one of the most important trade partners worldwide for the U.S. The country's strong economy 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 is an excellent place for U.S. companies to do business.

Import Licenses: The FRG demands virtually no 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 Union. (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 received very few complaints. Some progress has been made in participation of foreign companies in banking and other financial services. The insurance market is still a tough one to crack. Telecommunications services are being increasingly deregulated.

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, for example, 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: German government procurement is non-discriminatory and appears to comply with the General Agreement on Tariffs and Trade (GATT) 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 military procurement or procurement of services, have been the most susceptible to these problems. With the implementation, January 1, 1995, of the Uruguay round agreement under the auspices of the WTO, GATT coverage will commence for some of these areas.

Germany recently implemented the EU Utilities Directive and its related Remedies Directive. With the recent conclusion of a US-EU memorandum of understanding on utilities procurement of heavy electrical equipment, U.S. firms now can claim rights equivalent to European firms under the Utilities Directive in this sector. Under the terms of the U.S.-German FCN, Germany is also to provide U.S. firms with nondiscriminatory treatment in the telecommunications sector.

Investment Barriers: The German investment climate is generally very open, but some of the concerns mentioned above, such as access to services markets and standards and procurement questions, may also be seen as obstructing an increase in investments.

Customs Procedures: Customs procedures at German ports-of-entry are relatively streamlined and efficient.

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 financing, 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, the Brussels Satellite Convention, and the Treaty of Rome on neighboring rights.

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.

Legislation to transpose the EC software copyright directive into national law was passed in June 1993. This new law met U.S. concerns about IPR protection for computer software by lowering the standards of originality which had undermined the level of protection for many business application programs. But American software firms are still concerned with the perceived level of software piracy by businesses in Germany. These concerns will be addressed when Germany implements provisions required by the TRIPs portion of the Uruguay Round, most likely before the end of 1995

8. Workers' Rights

a. *Right of Association.*—The constitution guarantees full freedom of association (Article 9). The workers' rights to strike and the lock-out are also legally protected activities. These rights have been developed further by jurisdiction.

b. *Right to Organize and Bargain Collectively.*—The German industrial relations system consists of a series of statutory mechanisms for sharing power over certain activities within firms, coupled and overlapping with an autonomous private collective bargaining system developed between the unions and employers organizations. The system of codetermination and worker participation (Mitbestimmung) is regulated at different levels by various laws enacted between 1951 and 1989. They cover two basic spheres: day-to-day social, personnel, and economic matters, which are handled by elected works councils; and basic business decisions at the enterprise level, made by supervisory or management boards, which include members elected by the workers. Wages, salaries and working conditions are determined either by collective bargaining agreements or individual contracts. Collective bargaining agreements are legally binding and can be enforced through the courts. Under certain circumstances, a collective bargaining agreement can be declared "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 although some prisoners are required to work.

d. *Minimum Age for Employment of Children.*—German legislation in general bars child labor under age 15. There are 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. European Union legislation is becoming more and more important in this area. 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 and belong to and support Chambers of Industry and Commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,468
Total Manufacturing		22,283
Food & Kindred Products	2,054	
Chemicals and Allied Products	3,812	
Metals, Primary & Fabricated	1,194	
Machinery, except Electrical	5,368	
Electric & Electronic Equipment	877	
Transportation Equipment	5,293	
Other Manufacturing	3,686	
Wholesale Trade		2,945
Banking		2,229
Finance/Insurance/Real Estate		5,107
Services		862
Other Industries		1,630
TOTAL ALL INDUSTRIES		37,524

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

GREECE

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1988 prices) [2]	62.6	62.2	62.9
Real GDP Growth (pct.)	0.8	−0.5	1.1
GDP (at current prices) [2]	84.6	80.6	N/A
By Sector:			
Agriculture	9.2	8.2	N/A
Energy/Water	2.2	2.0	N/A
Mining	0.7	0.6	N/A
Manufacturing	11.5	10.0	N/A
Construction	6.5	6.1	N/A
Rents	12.3	12.7	N/A
Financial Services	16.0	15.5	N/A
Other Services	11.0	10.8	N/A
Government/Health/Education	14.0	13.9	N/A
Statistical Discrepancies	1.2	0.8	N/A
Net Exports of Goods & Services	−9.6	−9.0	−9.7

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Real Per Capita GDP (1988 prices/USD)	6,087.0	6,005.0	6,041.0
Labor Force (000s)	4,034.3	4,118.4	4,143.1
Unemployment Rate (pct.)	8.7	9.7	10.0
Money and Prices (annual percentage growth):			
Money Supply (M3/end period)[3]	14.4	15.0	10.0
Base Interest Rate[4]	29.0	26.0	26.0
Personal Saving Rate	18–19	17.0	16–17
Retail Inflation	15.8	14.4	11.1
Wholesale Inflation	11.3	11.9	8.5
Consumer Price Index	15.8	14.5	11.1
Exchange Rate (USD/DRS)			
Official	190.7	229.3	243.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade: (millions of USD)			
Total Exports (FOB)[5]	6,008.8	5,034.3	5,000.0
Exports to U.S.[6]	382.6	377.1	86.2
Total Imports CIF[5]	19,902.0	17,615.5	18,500.0
Imports from U.S.[6]	848.9	820.5	190.6
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	22,954.5	26,857.0	28,800.0
Debt Service Payments (paid)	7,974.8	6,987.4	7,000.0
Gold and Foreign Exch. Reserves	5,588.0	8,693.6	13,000.0
Trade Balance[5]	−13,893.5	−12,581.2	−13,500.0
Trade Balance with U.S.[6]	−466.3	−443.4	−104.4

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] M2 not available in Greece.
[4] Figures are actual average annual interest rates, not changes in them.
[5] Merchandise trade, Bank of Greece data, transaction basis.
[6] Customs data (National Statistical Service of Greece). 1994 figures cover January-March period.

1. General Policy Framework

Greece has been a member of the European Union (EU) since 1981 and enjoys a relatively open, free-market economy. It has a population of 10.4 million and a work force of about four million. The moderate level of development of Greece's basic infrastructure—road, rail, telecommunications—reflects its middle-income status. The public sector constitutes 50 to 60 percent of Gross Domestic Product (GDP), a substantial portion of the total official economy. Despite the recent revision on national accounts, which boosted GDP by 20 percent, some 15 percent of economic activity still remains unrecorded (parallel economy). With about 66 percent of GDP deriving from services (including government services), 23 percent from industry (13 percent from manufacturing) and 11 percent from agriculture, Greece imports more than it exports. In 1993, Greece had a trade deficit of 12.6 billion dollars on a total two-way trade of 22.6 billion dollars. 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. Substantial funds from the EU (about 20 billion dollars) are allocated for major infrastructure projects (road and train network, ports, airports, bridges etc.) over the next five years (1994–99). The Uruguay Round Agreements were ratified in late 1994.

The government has expressed the intention to meet the targets of the Maastricht Treaty for EU Economic and Monetary Union (EMU). The new government which took office on October 13, 1993 has pledged that it will continue efforts to lower inflation and to reduce net borrowing as a percent of GDP from the present 12.5 percent to 7 percent in 1996 and 0.9 percent in 1999. The government is concentrating its efforts on ending tax evasion and an incomes policy aimed at protecting the real

income of workers. It also intends to sell minority share holdings of certain state enterprises and organizations. However, international financial organizations believe that new measures are required to reduce the budget deficit if Greece is to meet its convergence targets.

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 with the eventual goal of balancing expenditures with receipts. Deficits are financed primarily through treasury bills.

The government passed a new tax reform package into law in April 1994. The new law makes changes in the income tax system mainly through the introduction of objective income criteria for determining the income of small businesses and some 1,300 professions. A new investment incentives law, introduced in 1994, makes modifications to the incentives regime. The emphasis of the new legislation is on the assistance for larger projects and on the development of new products. Foreign investments offering new know-how will get preferential treatment. Greek investments throughout the Balkans will be subsidized.

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. The State continues to retain privileged access to credit via state-controlled banks and via the tax-free status accorded to government debt obligations (which includes the right of Greek residents to purchase government debt obligations without having to declare their source of income to the tax authorities). Treasury bills are issued by the Ministry of Finance but they are expected to fall within the monetary program prepared by the Bank of Greece. The Bank's policy includes a more active intervention in the secondary money market.

2. Exchange Rate Policy

Greece has followed a relatively "strong drachma" policy during 1994 as a means of holding down inflation. The Bank of Greece maintains a "crowling-peg" system and allows on a limited depreciation of the drachma against the Deutche Mark. In the past year, the drachma has appreciated slightly against the U.S. Dollar. 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. Remaining restrictions on short-term capital movements were lifted as of May 16, 1994. This move brings Greece in line with EU rules on free movement of capital. Some bureaucratic obstacles still remain, but they are expected to be phased out.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union.

Pricing Policies. The only remaining price controls are on pharmaceuticals and rents; some rents have been freed. 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 April 1993:

—Increased the corporate tax rate from 35 to 40 percent for all non-public corporations

—Increased the top personal income tax rate to 45 percent from 40 percent for amounts exceeding 62,000 dollars annually.

—Imposed presumptive taxation on a large number of professionals on the basis of a number of factors, i.e. the location and type of business, the number of years in operation, the imputed rent of the property.

The new law did not change the 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 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 is forecasted at 113 percent of GDP in 1994. A change in national accounts statistical methodology has recently led to a 23 percent statis-

tical increase in GDP. Before such adjustment government debt was as high as 135.8 percent of reported GDP in 1993. If one includes the debt of other public entities, total Greek public sector debt was measured at 150 to 160 percent of GDP, using the old system of national accounts. Foreign debt does not affect Greece's ability to import U.S. products.

Servicing of external debt in 1993 (interest and amortization) was equal to 138.9 percent of exports and 7.8 percent of GDP. With no new net borrowing, Greece's external debt service will be around 7.2 billion dollars in 1994. 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 any program with the World Bank. In 1985, and again in 1991, Greece borrowed from the EU.

5. Significant Barriers to U.S. Exports

Greece does not have merchandise trade barriers other than those imposed by the EU. It maintains, however, specific barriers on trade in services such as law, accounting, aviation, tourism and motion pictures:

—Greece maintains nationality restrictions on a number of professional and business services, including legal advice and accounting. Except for accounting, these restrictions do not apply to EU citizens. The U.S. companies can generally circumvent these barriers by employing EU citizens, the most prominent example being in auditing. However, the government recently passed a law which imposes burdensome qualifications on non-Greek accountants, virtually excluding non-Greeks from most accounting activities. The government has pledged to withdraw this restriction.

—Foreign air carriers may not sell ground services for aircraft to other 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 dollars).

—Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Moreover, Greek laws and practices are currently ineffective in protecting intellectual property rights, including film, software, music and books (see below).

Investment Barriers:

—Both local content and export performance are elements which are seriously taken into consideration by Greek authorities in evaluating applications for tax and investment incentives. However, they are not legally mandatory prerequisites for approving investments.

—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. U.S. banks have been able to overcome this provision by operating on branches of EU operations.

Greek laws and regulations concerning government procurement ostensibly guarantee nondiscriminatory treatment for foreign suppliers. In fact, the Greek Government procurement favors Greek companies, or in some cases EU corporations.Officially, Greece adheres to the EU procurement policy, and Greece has also recently joined the GATT procurement code. Greek willingness to adhere to GATT government procurement procedures is a positive step.

Many 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. Occasionally transfer of technology is required in telecommunications projects.

6. Export Subsidies Policies

The Greek government allows exporters to pay tax deductible commissions and expenses 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 Organiza-

tion, 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 30 to 50 percent of video cassette rental transactions involve pirated product. Over 100 unlicensed television stations frequently broadcast American movies and television programs without authorization or payment of royalties.

Greece took a 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 may eventually serve as a deterrent, if properly enforced. The new law relies heavily upon a new intellectual property office (OPI) to supervise implementation. The legal procedures for the establishment of this new office were completed in October 1994, but the office has not started operating yet. How effective the law is will depend directly upon how well OPI functions. Due to the piracy situation, Greece was placed on the USTR: "Priority Watch List" under the "Special 301" provision of the 1988 Trade Act, in November 1994.

8. Worker Rights

a. *The Right of Association.*—The right of association is set out in the constitution and in specific legislation passed in 1987 and amended in 1992. All Greek workers except the military and police may form or join unions of their choosing. In 1993, approximately 30 percent of Greek workers were organized in unions. Over 4,000 unions are grouped into regional and sectoral Federations and two umbrella confederations, one for civil servants and one for private sector employees. Unions are highly politicized, and there are party-affiliated factions within the labor confederations, but they are not controlled by political parties or the government in their day to day operations. Greek unions maintain a variety of international affiliations and are free to join international federations and confederations. Greek labor law prohibits firms from laying off more than two percent of total personnel per month. This restricts the flexibility of firms and the mobility of Greek labor. Labor law mandates skeleton staffs during strikes affecting public services such as electricity, transportation, communications and banking. The courts have the power to declare strikes illegal, although such decisions are seldom enforced. Employers do not have the right to lock out workers.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively was guaranteed in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services prior to compulsory arbitration. 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 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. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children.*—The minimum age for work in industry is 15 with higher limits for certain activities.

e. *Acceptable Conditions of Work.*—Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job-related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate.

f. *Rights in Sectors with U.S. Investment.*—Although labor management relations and overall working conditions within foreign business enterprises may be among the 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		([1])
Total Manufacturing		125
Food & Kindred Products	([1])	
Chemicals and Allied Products	50	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	([1])	
Transportation Equipment	0	
Other Manufacturing	29	
Wholesale Trade		60
Banking		([1])
Finance/Insurance/Real Estate		34
Services		([1])
Other Industries		0
TOTAL ALL INDUSTRIES		424

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

HUNGARY

Key Economic Indicators[1]

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

	1992	1993	1994 (est.)[2]
Income, Production and Employment:			
Real GDP (Index: 1985=100)[3]	85.6	84.5	N/A
Real GDP Growth (pct.)	−4.3	−2.3	2.0
GDP (at current prices)[3]	36,500	36,055	41,777
By Sector:			
Agriculture	2,394.46	2,133.76	2,486.00
Energy/Water	1,291.13	1,150.59	1,220.00
Manufacturing	7,397.74	7,301.17	8,463.00
Construction	1,940.50	2,021.94	2,600.00
Rents	3,934.20	4,423.90	5,376.00
Financial Services	2,198.73	2,064.31	2,160.00
Other Services	7,103.80	7,589.10	10,185.00
Government/Health/Education	4,893.67	5,180.35	7,098.00
Net Exports of Goods & Services[4]	10,131	7,990	N/A
GDP Per Capita (USD)	3,441	3,700	4,056
Labor Force (000s)	45,049	45,522	44,407
Unemployment Rate (pct.)	12.3	12.1	11.8
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	27.0	16.6	N/A
Base Interest Rate[4]	22	21	25
Personal Saving Rate[4]	10.9	6.5	N/A
Retail Inflation	25.0	25.5	22.0
Wholesale Inflation	11.5	10.3	N/A
Consumer Price Index	23.0	22.5	20.0
Exchange Rate			
Official	79.00	92.04	103.00
Parallel	90	100	110

Key Economic Indicators[1]—Continued

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

	1992	1993	1994 (est.)[2]
Balance of Payments and Trade:[5]			
Total Exports (FOB)	10,678.5	8,912.0	9,625.7
Exports to U.S.	294.6	375.9	350.0
Total Imports (CIF)	11,120.3	12,635.9	13,383.4
Imports from U.S.	278.5	493.3	392
Aid from U.S.[5]	116	155	193
Aid from Other Countries[5]	618.6	813.6	978.9
External Public Debt	21,438	24,560	26,556
Debt Sevice Payments (paid)[4]	4,653	4,806	5,232
Gold and Foreign Exch. Reserves[4]	4,381	6,763	7,000
Trade Balance	441.8	−3,723.9	−3,757.7
Trade Balance with U.S.	16.9	−117.3	−42.0

[1] Source: Central Statistical Office, unless stated otherwise; provided in HUF and converted at the official exchange rates, indicated in this table.
[2] Source: Ministry of Finance, except data on trade.
[3] At factor cost.
[4] Source: National Bank of Hungary.
[5] Source: Ministry of Industry and Trade; all 1994 data are estimates.

1. General Policy Framework

Hungary is well along in its efforts to establish a full market economy. It has liberalized its trade regime extensively during the last five years. Ninety percent of imported products no longer require prior government approval. Foreign direct investment has flowed rapidly into Hungary since 1990, bringing with it a greater familiarity with foreign, including U.S., products. Since the May 1994 elections, the new coalition government has been formulating its economic policy. In response to the need to reduce government spending and the current account deficit some GATT-consistent measures are expected. Two of the key tenets of the program are promoting exports and investment. The government ratified the Uruguay Round Agreement at the end of 1994. As a result, quotas on agricultural products are being replaced by tariffs. Therefore, the only remaining vestige of protectionism after ratification of the GATT will be consumer goods quotas on manufacturing products.

The population of Hungary is saddled with the highest per capita foreign debt in Europe. Interest payments on the debt are expected to balloon in 1995 and 1996. In addition, Hungary has very large balance of payment and current account deficits, the former of which was caused primarily by spending on social programs and a rate of domestic consumption that surpassed domestic production by almost 10 percent. The government has financed the deficit primarily through issuing government bonds, both domestically and abroad. At the same time, a tight budget program is planned for 1995, projecting a $1.6 billion primary budget surplus.

The government, describing the economic situation as a crisis, is seeking to stabilize the economy by calling for zero growth in net debt, keeping a tight lid on inflation, and holding growth in real wages to four to five percent below the rate of inflation. The parliament is currently debating these measures, as is the Interest Reconciliation Council (a tripartite group on which government, employers, and employees are all represented). The final results of these discussions, intended to be a three-year Social Pact, will not be known until the end of the year at the earliest.

Promotion of foreign direct investment continues to be a government priority. The government has introduced regional development programs that will provide tax preference to investments in certain regions. Tax preference for investments will be normative and the threshold for equity will be decreased. Incentives are also provided for domestic private investment. Tax preferences are being proposed for enterprises that reinvest their income and a less burdensome tax process is being proposed for small entrepreneurs. In addition, Hungarian law provides for the establishment of companies in customs-free zones. The companies established there are exempt from customs and foreign-exchange requirements as well as from indirect taxation tied to the turnover of goods. With respect to direct taxes, these companies enjoy transitory preferences. Effective January 1994, the Corporate Tax Act allowed for a discretionary tax reduction for companies meeting the prerequisites. This provision, however, has come under some criticism and the new government is expected to legislate a number of investment incentives which will not discriminate between

domestic and foreign investment. It has also stated that it will eliminate the minimum two percent turnover tax.

The National Bank of Hungary (known by its Hungarian acronym, MNB) is the primary monetary policy actor. In order to control the money supply, the MNB uses open market operations to a large extent. It controls the rate of interest on government T-bills as well as the rate applied to repurchase agreements. Under conditions identical with the repurchase rates, commercial banks can conclude foreign exchange swap transactions with the MNB. In addition to controlling the money supply through open market operations, the government also carried out a fairly active exchange rate policy in 1994.

2. Exchange Rate Policy

The Hungarian forint is almost fully convertible for current account transactions, but not for capital account movements. It should be noted, however, that while the government is currently reviewing its Foreign Exchange Law with an eye toward liberalizing both current and capital accounts in an effort to meet OECD membership requirements, significant changes in capital account restrictions are not expected for several years. Currently, the forint is pegged to a currency basket consisting of the U.S. dollar (30 percent) and the European Currency Unit (70 percent). Inflation-led appreciation of the forint has resulted in periodic devaluations. Exporters have been critical of the government's exchange rate policy, claiming that the overvaluation of the forint has priced them out of the foreign markets. The worsening current account fueled anticipation that a sizeable devaluation would occur to correct the situation. In August 1994, the government devalued the forint by eight percent—the largest devaluation since 1991 That was followed by a 1.1 percent devaluation in early October.

Although the forint continues to be a managed currency, it is in essence fully convertible for business purposes. Foreigners may freely repatriate profits and dividends in hard currency. Foreign exchange controls have been liberalized steadily. Foreigners are now permitted to maintain forint accounts which can be used to purchase goods domestically.

3. Structural Policies

There are no centrally-determined prices for consumer products in Hungary. However, the prices for the state-owned gas, electricity, and water utilities (the first two of which may soon be partially privatized) are determined by the state. As privatization of these companies proceeds, prices will be brought more in line with market prices. The government offers a wholesale floor price for unprocessed agricultural products, but producers are not obliged to sell their products to state companies at this price. As a floor support price, this policy has no impact on U.S. agricultural exports to Hungary.

Hungary overhauled its tax system in the late 1980's, instituting a western-style system. It is now in the process of reforming the entire budget system, including some taxes. The most important taxes for a foreign investor are: company tax (36 percent of corporate profits); the general turnover tax (a value-added tax attached to the value of goods and services supplied domestically, imported, or exported; current rates are 0, 10, and 25 percent, but the new government proposes raising the 10 percent rate to 12 percent); and personal income tax (current rates range from 0 to 44 percent, but a proposal before the Parliament would add a 50 percent bracket for those whose annual earnings exceed one million forints, about $10,000). In addition to taxes, employers must also pay contributions to the Social Security and Solidarity (unemployment) funds (44 and 7 percent respectively.)

As mentioned above, the new government is now debating its economic policy for 1995 and subsequent years. Tax laws are likely to change as a result of these discussions. The government has indicated that promoting investment is one of its primary goals. According to tax proposals before Parliament, tax on profits will be 18 percent if they are reinvested and 36 percent if they are remitted as dividends to shareholders. In 1992, the Act on Separate State Funds established an Investment Promotion Fund to encourage foreign investment in infrastructure, new technology, and public utilities. To qualify for subsidies from this fund, a company must have at least 30 percent foreign participation, a minimum of $500,000 in capital, and the foreign contribution must be in convertible currency and not less than 50 percent of the foreign partner's share. Companies that meet the first two of these requirements and invest in manufacturing that generates more than half of their gross revenues may qualify for a 60 percent tax exemption for the first five years and a 40 percent exemption for the next five. If they invest in one of 15 designated sectors, they could receive a 100 percent tax exemption for the first 5 years and a 60 percent exemption for the second five.

Act LXXXVI of 1990 on the Prohibition of Unfair Market Practices (the "Competition Act") is actually a comprehensive law intended to foster the establishment and maintenance of a competitive market. The Competition Act addresses consumer fraud, the restriction of competition, abuse of a dominant market position, and unfair competition. The Competition Act created the Economic Competition Office. This office is responsible for investigating and stopping any unfair market practices.

4. Debt Management.

As mentioned earlier, Hungary has the highest per capita foreign debt in Europe. Despite this, it has never sought debt forgiveness or debt rescheduling. As a result, Hungary has a generally good relationship with commercial creditors, the IMF, and the World Bank. It fell far short of IMF target figures for debt as a percentage of GDP and for the budget deficit in 1993. Currently, the Government of Hungary and the IMF are negotiating a new agreement to replace the 18 month agreement that expired in December 1994 (an agreement that has been dormant for much of its term). Although the government is seeking a three-year agreement to facilitate economic restructuring, it is more likely that it will reach agreement on a one-year credit in the short run, with prospects for a longer-term agreement linked to an acceptable three-year economic program. Hungary's foreign debt totals approximately $27 billion, with interest payments on the debt ballooning in 1995 and 1996. The government is counting on an improving current account balance and increased foreign investment to lessen this burden.

5. Significant Barriers to U.S. Exports.

Hungary has liberalized its market substantially in recent years. While Hungary's average tariff rates are decreasing, peak rates are exceptionally high (on coffee, for example). Hungary imposes a $750 million global quota on imports of consumer goods. American companies have complained about an insufficient quota to properly supply the market. Additionally, by the terms of the Association Agreement, Hungary has reserved quota allotments for imports from the European Union. As a result of the Uruguay Round, quotas on agricultural products and processed foods will be replaced by tariffs. On November 1, prior to ratification of the GATT Agreement, the government increased tariffs on agricultural products that are not bound by GATT; during the first half of 1995, a further increase will take place in accordance with the Uruguay Round Agreement's requirement that non-tariff barriers be replaced by tariffs.

Foreign companies complain that the implementation of new regulations with no advance notice disrupts trade. For example, in October 1993 the Government passed new regulations mandating that quality control certificates were required for consumer goods imports to be customs-cleared. There was no advance notice of the implementation of the new regulations. Consequently, neither the importers nor the testing/certification agencies were prepared for the regulatory change. Similarly, the government gave only a 5 day advance notice of tariff increases on agricultural imports (mentioned above).

While the investment market in Hungary is substantially liberalized, there are still some potential barriers. Act XVI of 1991 on Concessions authorizes the state to provide investors with concessions in return for their investment in infrastructure and certain other sectors. In general, though, 100 percent foreign ownership is permitted in sectors open to private investment. Exceptions include restrictions on foreign investment in defense-related industries, in the media, and on foreigners' acquisition of land. While screening of foreign investments does not normally occur, Hungary does screen investments in financial institutions and insurance. However, a number of foreign banks and financial institutions currently operate in Hungary despite this screening process; the Embassy has received no reports of established U.S. banks or other financial institutions being denied permission to operate in Hungary.

Foreign investors are nearly always accorded national treatment under law. Nevertheless, a few instances of discrimination do exist. For example, foreign investors may only exercise shareholder rights if they have purchased registered shares (although if they buy unregistered shares, they may petition to have those shares converted to registered shares). The Investment Act guarantees foreigners the right to repatriate "in the currency of the investment" any dividends, after-tax profits, royalties, fees, or other income deriving from the operation or sale of the investment. The Act also grants foreign employees of foreign investors the right to transfer abroad fifty percent of their after-tax salaries. Foreign investors are also allowed to keep any cash contributions made in a convertible currency in a foreign exchange account. All companies registered in Hungary, including those with foreign participation, are required to sell foreign exchange receipts from exports to the National

Bank within eight days of receipt unless an exemption has been granted by the MNB. One notable exception allows a company to maintain a foreign currency account to pay for foreign travel, advertising, and related expenses. All companies must obtain permission from the National Bank before taking out a hard currency loan (although this requirement will reportedly be dropped as part of the governments rewrite of the Foreign Exchange Law).

Hungary is not a signatory to the GATT Agreement on Government Procurement. Increasingly, foreign businesses criticize the tendering processes, citing non-transparency and irregularities. The government is likely to promulgate new government procurement guidelines that may address some of these issues, but could, at the same time, establish local content requirements.

All importers and exporters must file a VAM 91 document which can be obtained from the Hungarian Customs. Essentially, this document serves as a declaration for the type and number of goods being imported or exported. This document must contain the Product Code Number which identifies the classification of the goods. The Product Code Number can be obtained from the Central Statistical Office.

Upon the importation of goods, the importer must present certification documents from the Commercial Quality Control Institute (KERMI); goods cannot be customs-cleared without the KERMI permits. In certain instances, the KERMI permit may be substituted by documentation from other testing and certification agencies such as the National Institute for Drugs and the Quality Control Office of the Building Industry. All food products must be labelled in Hungarian and must give the following information: net quantity, name/address of producer (or importer), consumption expiration date, recommended storage temperature, listing of ingredients/additives, energy content, and approval symbols from the National Institute of Food Hygiene and Nutrition (OETI) and KERMI. There are also specific marking and labelling requirements for cosmetics as well as human and animal pharmaceuticals.

The Hungarian Standardization Office (MEI) oversees the standards system. There are currently two types of standards: national and sectoral. National standards are issued by the MDI. These standards are binding and supersede sectoral standards. Sectoral standards are issued by individual ministries and other central government agencies. National standards conform to international norms. Hungary is a signatory to the GATT Agreement on Technical Barriers to Trade (Standards Code). Hungary also participates in the International Organization for Standardization (ISO) and the International Electro-technical Commission (IEC).

New consumer goods are subject to an approval process implemented by KERMI. The Hungarian Electro-technical Control Institute (MEEI) controls electronic/technical goods; approval is based on compliance with Hungary's standards on protection against electric shock. In order to import or market these highlighted products, they must be tested and certified by these control institutes.

6. Export Subsidies Policies

There are no subsidies on exports of industrial products. Various agricultural product groups, however, receive a certain percentage subsidy from the state. The general level of agricultural subsidy, however, is relatively low. Two institutions were established in 1994 to support exports: the Export Import Bank and the Export Credit Guarantee Ltd. The two institutions will provide credit or credit insurance for about 8 to 10 percent of total exports. Upon ratification of the Uruguay Round Agreement, Hungary will become an automatic signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The Hungarian legal system protects and facilitates the acquisition and disposition of property rights. The basic legislation providing protection for inventions is Act II of 1969 (as amended) on the Patent Protection of Inventions. The Patent Act provides twenty years of protection from the date of filing at the National Office of Inventions, as opposed to the American system which extends protection from the date of invention. Licenses may be granted. Compulsory licensing to a Hungarian enterprise may be ordered in certain circumstances when a patent has not been used within four years of the date of application or three years from the date of issue.

Act III of 1969 (as amended) on Copyrights is intended to protect literary, scientific, and artistic creations. "Computer programs and the related documentation" (software) are expressly included in the list of protected works. According to the law, "the consent of the author shall be required for any use of his work" or of the title of the work. "Use" is defined as "the process in the course of which the work or a part thereof is communicated to the public" and pertains to "alterations, adaptations, and translations." The law includes under communication "posters, news-

papers, programs, films, radio, television, etc." relating to the work. There have been numerous complaints that Hungarian enforcement of the Copyrights Act has not been sufficiently vigorous and that significant quantities of pirated and counterfeit software, sound recordings, etc., are marketed in Hungary.

The registration and protection of trademarks is governed by Act IX of 1969 on Trade Marks and related decrees. The application process can take from six months to a year. Foreigners are required to appoint a Hungarian attorney to represent them. Decisions by the National Office of Inventions to deny an application or cancel a registration may be appealed to the Supreme Court. Registrations are valid for ten years and can be renewed. Licensing of trademarks is permitted. The law protects well-known marks, stating that "the existence of a well-known mark (whether registered or unregistered) is a bar to registration of an identical or confusingly similar mark, regardless of the goods concerned." While there are no statutory use requirements, "failure to use a mark over a five-year period renders the registration open to cancellation."

Trade secrets are protected by Act LXXXVI of 1990 on the Prohibition of Unfair Market Practices. The law expressly forbids obtaining or using business secrets "in an unethical way" and disclosing them to unauthorized persons or making them public. Business secrets are defined as "every such fact, information, solution, or data related to economic activity that it is in the entitled person's interest to have remain secret."

Two new laws protecting intellectual property entered into force in January of 1992. Act XXXVIII of 1991 protects utility models, and Act XXXIX of 1991 protects the topography (layout design) of semiconductor chips.

In 1993, the United States and Hungary signed a comprehensive Intellectual Property Rights Treaty. Law Number VII (1994) on the Amendment to Industrial Property and Copyright Legislation was adopted by Parliament and implemented on July 1, 1994. This law amends several existing laws and serves to extend patent protection for pharmaceutical and chemical products (previously, Hungary issued only process protection for products in these categories); addresses who controls the rights of works; extends and unifies the terms of protection; expands protection for the original layout designs incorporated in semiconductor chips; provides the legal means to prevent proprietary information from being disclosed or acquired without the consent of the trade secret owner by other than "honest commercial practices;" and ensures enforcement procedures are available under civil, criminal, or administrative law to permit effective action against IPR infringement.

Hungary is a member of the World Intellectual Property Organization and a signatory of important agreements on this issue, 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.

8. Worker Rights

a. *The Right of Association.*—The labor code passed in 1992 recognizes the right of the unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to go on strike.

b. *The Right to Organize and Bargain Collectively.*—The 1992 labor code permits collective bargaining at the enterprise and industry level and it is practiced. Minimum wage levels are set by the Interest Reconcilation Council (known by its Hungarian acronym, ET), a forum for tripartite consultation among representatives from the employers, employees, and the government, and higher levels (but not lower ones) may be negotiated at the plant level between individual trade unions and management. By agreement, the legal minimum wage is centrally negotiated at the ET in order to control inflation. The Ministry of labor is responsible for drafting labor-related legislation, while special labor courts enforce labor laws. The decisions of these courts may be appealed to the civil court system. Under the new legislation, employers are prohibited from discriminating against unions and their organizers.

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 of Employment of Children.*—Labor courts enforce the minimum age of 16 years, with exceptions for apprentice programs, which may begin at 15. There does not appear to be any significant abuse of this statute.

e. *Acceptable Conditions of Work.*—The legal minimum wage is established by the ET and subsequently implemented by Ministry of Labor Decree. 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.

f. *Rights in Sectors with U.S. Investment.*—Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		315
Food & Kindred Products	(1)	
Chemicals and Allied Products	−24	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	3	
Other Manufacturing	(1)	
Wholesale Trade		66
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,001

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

IRELAND

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP[2]	45,339	42,482	43,296
Real GDP Growth Rate (pct.)	4.9	−0.7	1.5
GDP (at current prices)[2].			
By Sector:			
Agriculture/Forestry/Fishing	4,286	3,752	N/A
Industry	17,109	15,809	N/A
Distribution/Transport/Communication	7,572	7,280	N/A
Public Administration/Defense	2,676	2,502	N/A
Other Domestic	15,633	14,777	N/A
Adjustment for Financial Services	−1,936	−1,638	N/A
GDP at Factor Cost	45,339	42,482	N/A
Plus Taxes on Expenditure	8,128	7,158	N/A
Less Subsidies	−2,487	−2,497	N/A
GDP at Market Prices	50,978	47,143	53,607
Exports of Goods and Services	31,744	29,828	33,877
Real Per Capita GDP	21,712	18,207	18,555
Labor Force (000's)[3]	1,364	1,378	1,391
Unemployment Rate (standardized)	15.5	15.75	15.25

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Money and Prices: (annual percentage growth)			
Money Supply (M3) (year-end) (year-to-year pct. change)	9.0	22.3	8.4 (Aug)
Associated Banks' Prime Lending Rate (avg.)	19.00	7.19	5.81 (Sept)
Commercial Interest Rates			
Over 1 Year-Up to 3 Years (avg)	15.25	10.25	8.90 (July)
Savings Interest Rate	−6.50	−0.75	−0.50
Investment Share Accounts	10.75	4.00	3.00 (July)
Investment Rate:			
1-Year to Maturity	13.13	5.74	6.16 (July)
10-Year to Maturity	10.12	6.26	8.44 (July)
Consumer Price Index (base 1985 as 100)	108.2	109.8	117.1 (2nd qtr)
Retail Sales Index (base 1990 Aa 100)	106.2	109.4	116.2 (2nd qtr)
Wholesale Price Index (base 1985 as 100)	106.4	N/A	N/A
Exchange Rate ($/IP)	1.70	1.46	1.53 (3rd qtr)
Balance of Payments and Trade:			
Total Exports (FOB) [4]	27,853	28,378	32,240
Exports to U.S. [5]	2,260	2,500	N/A
Total Imports (CIF) [4]	22,137	21,348	24,156
Imports from U.S. [5]	2,860	2,700	N/A
Aid from the E.U. (000s) [6]	19,465	17,520	18,360
Aid from the U.S. (000s)	15,590	19,211	19,600
Gross Public Sector Foreign Debt (external government debt)	18,455	17,922	18,918
Debt Service Payments (paid)	4,004	3,489	N/A
Gold and Foreign Exch. Reserves (official external reserves)	5,535	6,246	6,850 (June)
Trade Balance	5,716	7,030	8,084
Trade Balance with U.S.	600	200	N/A

N/A—Not available.
[1] Forecasts.
[2] GDP at factor cost.
[3] Annual averages.
[4] Merchandise trade.
[5] U.S. Department of Commerce figures.
[6] Aid from the European Union for the years 1995 through 1997 will be increased to USD 24 million per year following the ceasefires in Northern Ireland.
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 trade. Exports of goods and services in 1993 were equivalent to 77 percent of GNP, while imports were equivalent to 61 percent of GNP. Government policies are generally formulated to facilitate trade and inward direct investment. Ireland has a market economy, which is based primarily on private ownership. Government ownership and control of companies generally occurs in those sectors which are considered by the government to be natural monopolies, those in which the state has stepped in to assist failing firms, or those of special importance to the economy. In the majority of cases, government owned firms are operated on a commercial basis, and may be in com-

petition with privately owned firms in the same sector. In recent years the government has reduced its share holding in a number of companies which are considered viable. Government policy is heavily influenced by sustained high unemployment, 15 percent seasonally adjusted in September 1994. A young and growing work force will continue to put pressure on the labor market in Ireland through the end of the century and emigration will likely continue at a significant scale.

Fiscal Policy: In 1993, Ireland's government debt was approximately IP 30 billion, of which about IP 12 billion was denominated in foreign currencies. The debt has generally been financed by the sale of government securities. The vast majority of the debt was accumulated in the 1970's and early 1980's, partly as a result of oil price shocks, but more generally as a result of expanding social welfare programs and government employment. The debt grew rapidly in the late 1970's and early 1980's due to increased interest rates and large government deficits. However, successive governments have made considerable progress during the past seven years in reducing budget deficits and containing the growth of total debt.

Ireland ratified the Uruguay Round agreement and is a founding member of the World Trade Organization.

In recent years, most collective bargaining in Ireland has taken place in the context of a national economic program. A new program, the Program for Competitiveness and Work (PCW) was agreed to by representatives of government, unions, employers and farmers in February 1994 and was a major element of the government's success in fostering economic growth. The PCW is Ireland's third centralized pay agreement and replaces the Program for Economic and Social Progress (PESP) which expired in December 1993. These programs are credited with providing a favorable economic climate for strong growth in Irish GNP since 1987. The PCW contains similar provisions to the previous programs for moderate wage increases and improvements in government finances. Government budget deficits fell dramatically while exports, investment and consumer spending showed strong growth. Unemployment has begun to decline, but, the expanding Irish economy is unlikely to make a significant impact on Ireland's high unemployment rate. The Irish labor-economic environment is remarkably open. With over a half-million Irish working outside Ireland, particularly in the U.K., the robust economy usually attracts home many emigres offsetting any temporary reduction in unemployment due to emigration. Projections for 1994 indicate that government borrowing will be about 2.7 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 reducing the standard and higher income tax rates by six points. Income tax rates did not change in the 1994 budget, however, and remain at 27 and 48 percent. Approximately 62 percent of Irish tax payers are in the 27 percent standard rate bracket. The controversial one percent income levy which was introduced in the 1993 budget was abolished in 1994. Irish value added tax (VAT) rates are among the highest in the European Union (EU) and were streamlined in the 1993 budget, and remain unchanged. 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 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 15 percent band against other ERM currencies. The Irish pound has been adjusted downward three times since Ireland joined the EMS. Adjustments were 3.5 percent in 1983, 8.0 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 Ex-

change 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 the former Yuguslavia) 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 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 (manufacturing companies) has been extended by the government to the year 2010. Personal income tax rates are relatively high, encouraging tax avoidance at all income levels, which has led to the creation of a "black economy" estimated at between IP 1.5 and 3 billion, or between five and ten percent of GNP.

In the 1994 budget, the standard rate tax band was extended from USD 23,486 to USD 25,092 for a married couple and from USD 11,743 to USD 12,546 for a single person. Together with improvements in personal allowances, this resulted in the threshold for the higher tax rate, in the case of most employees, being increased to USD 33,945 if married, and USD 17,803 if single. While these measures help some lower paid workers, the middle income class still bears a heavy tax burden. Many pay an additional 7.75 percent of their earnings for a variety of social security programs. Value-added tax (VAT) rates are among the highest in the European Union (EU) and were streamlined in the 1994 budget. The national standard rate of VAT remains at 21 percent. The lowest VAT rate of 12.5 percent is to be maintained for labor intensive services, including the construction sector. 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 in favor of 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 30 billion, or about 102 percent of estimated 1993 GNP, from 99.6 percent at end–1992. The increase is attributable to the adjustment of the Irish pound within the exchange rate mechanism (ERM). The downward trend in the debt/GNP ratio in evidence each year, from 125 percent in 1987, is expected to resume in 1994 and is now on line to achieve the 60 percent target set by the Maastricht Treaty. While the debt has continued to grow in nominal terms, it has fallen significantly as a percentage of GNP since 1987. The foreign portion of the debt is IP 12.2 billion. As of June 1994, 15.6 percent of foreign debt was dollar denominated, 25.6 percent was in deutsch marks, 16.9 percent in Swiss francs, 11.2 percent in Japanese yen, 10.3 percent was in Sterling, 8.7 percent in European currency units (ECU), and lesser amounts in Dutch guilders, French francs, and Austrian schillings. Debt service costs in 1993 were USD 3.5 billion, about 10.9 percent of estimated Irish exports of goods and services and about 8.4 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. An immediate opportunity for

U.S. companies exists in the Dublin International Financial Services Center (IFSC). This center offers interested U.S. companies the opportunity to establish an 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, guaranteed by the government through the year 2005. The deadline for granting IFSC licences is December 31, 1994. The special corporation tax rate of 10 percent applies in the IFSC until the end of 2005, but the EU deadline means only companies obtaining licences before December 31, 1994 will qualify for the special tax rate. The United States has the second largest representation at the IFSC 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. Two sets of statutory regulations were used to transpose the remaining provisions, as follows. (1) The EU Communities (Television Broadcasting) Regulations, 1991 Directive requires broadcasters to reserve a majority of broadcast time for productions of EU origin and to reserve at least 10 percent of transmission time or budget for independently produced European programs. (2) The Wireless Telegraphy (Television Program Retransmission and Relay) Regulations 1991 amends the regulations under which cable and multichannel microwave distribution systems (MMDS) licenses are issued. In short, MMDS operators will no longer require approval in advance of relaying a service. The Irish government is concerned about minority languages and cultures, but has not been a major player on this issue.

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 Food & Forestry 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 that have harmonized their laws on the basis of the European Patent Convention. The new legislation will also facilitate speedier processing of patent applications; 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. Legislation extending the term of protection of products covered by medicinal patents came into force on January 2, 1993, S.I. 125 of 1993. The amendment of the Constitution approved by the referendum held in June 1992 has cleared the way for Ireland's ratification of the agreement relating to EU 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.

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. The entire copyright system is under review and new copyright legislation will be introduced in 1995. EU directives will be included in the new legislation.

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 68 member unions with 681,138 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. In recent years, most terms and conditions of employment in Ireland are determined through collective bargaining in the context of a national economic program. Representatives of government, unions, employers and farmers agreed to a new program, the Program for Competitiveness and Work (PCW) in February 1994. It was a major element of the government's success in fostering economic growth. The PCW is Ireland's third centralized pay agreement in recent years and replaces the PESP which expired in 1993. These programs are credited with providing a favorable economic climate for the strong growth in Irish GNP since 1987. The declared aim of the new program, which provides for pay raises amounting to eight percent over three years to employees in the public and private sectors, is to help create a substantial number of new jobs. Pay increases in the private sector will be calculated on the basis of 2 percent of basic pay for the first 12 months of the Agreement; 2.5 percent for the second 12 months; 2.5 percent for the first six months of the third year; and 1 percent for the second six months of the third year. In the public sector, pay increases will be calculated on the basis of 2 percent of basic pay for 12 months starting five months after the expiry date of the PESP pay agreement; 2 percent for the next twelve months; 1.5 percent for the next four months; 1.5 percent for the next three months; and 1 percent for the remaining six months of the Agreement. The government expects the plan to help increase employment by 60,000 over the next three years. It also plans to create 100,000 jobs for the unemployed in community work schemes. Of critical importance to unions and employers are the moderate pay elements of the PCW and the promise of industrial peace. The PCW has been ratified by all the negotiating bodies.

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 of Employment of Children.*—Under Irish legislation, 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. The EU is adopting a new directive on the protection of young people at work.

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 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 EC assess the potential effects on employment, of any such proposal to regulate the labor market. In 1993 the average weekly wage was USD 371 (in 1993 IRP 1 was equivalent to USD 1.46) for production and transport workers. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime is limited to 2 hours per day, 12 hours per week, and 240 hours in a year. As part of the new national economic pact adopted in 1993, 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5,122
Food & Kindred Products	363	
Chemicals and Allied Products	2,340	
Metals, Primary & Fabricated	198	
Machinery, except Electrical	-14	
Electric & Electronic Equipment	762	
Transportation Equipment	52	
Other Manufacturing	1,420	
Wholesale Trade		159
Banking		(1)
Finance/Insurance/Real Estate		3,389
Services		684
Other Industries		52
TOTAL ALL INDUSTRIES		9,575

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

ITALY

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)	505,520	499,186	508,214
Real GDP Growth (pct.)	0.7	−0.7	1.8
GDP (at current prices) (billions USD)	1,220	992	1,026
By Sector:			
Agriculture	42,778	32,992	N/A
Industry	349,468	269,830	N/A
Energy	32,094	26,507	N/A
Construction	71,151	55,088	N/A
Services	610,418	497,125	N/A
Non-Market Services	169,185	137,363	N/A
Government	157,127	116,718	N/A
Net Exports of Goods and Services	−3,564	27,803	35,694
Real GDP Per Capita (USD) (1985 prices)	13,667	10,612	10,615
Labor Force (000s)	N/A	22,743	[2] 22,453
Unemployment Rate (pct.)	N/A	10.4	[2] 11.3
Money and Prices:			
Money Supply (M2)	583,371	543,393	[3] 595,791
(annual pct. growth)	4.6	7.9	[3] 4.5
Base Interest Rates	15.8	12.0	[3] 11.2
Personal Savings Rate	17.2	18.0	18.9
Retail Inflation (COL)	5.4	4.2	3.9
Wholesale Inflation (PPI)	1.9	3.7	3.4
Exchange Rate (lira/USD aver.)	1,233	1,572	1,600
Balance of Payments and Trade:			
Total Exports (FOB)	177,969	168,630	[4] 89,243
Exports to U.S.	12,393	13,034	[4] 7,071
Total Imports (CIF)	188,249	147,772	[4] 79,978
Imports from U.S.	9,847	7,855	[4] 3,913
External Public Debt (USD billions) (year end)	44.0	42.9	[2] 48.5
Debt Service Payments (billion USD?)	4.1	4.3	[2] 2.7
Gold and Foreign Exch. Reserves (end-period)	45,219	49,221	[3] 58,116
Trade Balance	−10,780	20,858	[4] 265
Trade Balance with U.S.	2,547	2,741	[4] 4,543

N/A—Not available.
[1] 1994 data are estimates by Italian Government or U.S. Embassy except where data are followed by a footnote, indicating actual data through that period.
[2] Figure based on January–July data.
[3] Figure based on January–August data.
[4] Figure based on January–June data.

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 last 50 years. 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. Economic activity in Italy is centered predominantly in the North, resulting in a divergence of wealth between North and South that remains one of Italy's most difficult economic and social problems.

The state plays an active role in the economy, not only in the formulation of macroeconomic policy and regulations, but also through state ownership of a number of large industrial and financial concerns. Recent governments, however, have begun a process of privatization that, if continued, should lead to a significant reduction in state ownership. To date, several large financial institutions and a few industrial concerns have been privatized. Key state monopolies in electricity and telecommunications are slated for privatization in 1995. Foreign firms, including U.S. firms, have been active both as purchasers of privatizing companies as well as privatiza-

tion advisors. There is also a large and dynamic private sector. While a few major conglomerates with extensive overseas operations exist, the private sector is characterized primarily by a large number of small and medium-sized firms which produce for domestic and export markets.

Italy's large public sector deficit and growing public debt constitute its most pressing economic problems. The stock of debt is currently estimated to be 123 percent of GDP. The budget deficit is expected to be about 9.6 percent of GDP in 1994. Since 1992, successive governments have implemented deficit reduction policies designed to alter the underlying deficit trend. The 1994 deficit was reduced by about 26 trillion lire ($16 billion). The government budget for 1995, with spending cuts and increased revenues of approximately 47 trillion lire ($29 billion), aims to reduce the deficit to 8 percent of GDP. Deficit reduction in 1995 will be attained primarily by means of spending cuts on pensions and health care, combined with additional revenues from expeditious settlement of outstanding tax disputes and a pardon on building violations.

Given Italy's fiscal imbalances, the primary objective of monetary policy is to support financing the budget deficit in the least inflationary manner. The 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. The Bank of Italy has moved away from direct monetary controls in favor of indirect instruments, an essential shift in light of the integration of European capital markets. Its principal policy tool is open market operations exercised through repurchase agreements with commercial banks. The central bank discount window is seldom used, although changes in the discount rate are used to signal policy shifts.

In late 1994 the Italian Parliament completed legislation implementing the Uruguay Round Final Act. Italy became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policy

Italy has a freely floating exchange rate and no exchange controls. Prior to September, 1992, Italy participated in the Exchange Rate Mechanism (ERM) of the European Monetary System, which obligated Italy to maintain fluctuations of the lira against other ERM currencies within a narrow band. In September 1992, due to severe pressures in foreign exchange markets, the Italian Government devalued the lira by seven percent against the other ERM currencies. When this failed to relieve pressure on the lira, Italy withdrew from the ERM. The Bank of Italy continues to monitor exchange rates and to seek lira stability against other EU currencies (especially the deutschemark) in order to avoid tensions with other EU countries regarding the question of competitive devaluations. The Bank of Italy does not intervene in the markets to defend the lira except in exceptional circumstances.

The lira devaluation has made Italian exports more competitive and resulted in a substantial trade surplus (estimated at 4 percent of GDP for 1994). Italy's share of global exports increased from 3.5 percent at end–1992 to 3.7 percent at end–1993, and exports are expected to grow by 9 percent in 1994. The lower lira, combined with the recession in 1992–93, has resulted in stagnation in Italian imports, not only from the U.S., but from other suppliers as well.

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 distorted the labor market and have had a negative impact on job creation. On the positive side, two labor cost agreements in the last several years have reduced the cost of labor to less than annual increases in inflation, which has resulted in increased Italian competitiveness in international markets. As part of its effort to create jobs, the Berlusconi government passed tax legislation in July 1994 aimed at encouraging the formation of small businesses (Italy's major employers) and providing incentives to young entrepreneurs.

Another major area of structural rigidity in Italy is financial markets, particularly the banking sector, which have been heavily regulated and slow to respond to market needs.

The Italian stock market, relatively undeveloped compared to its European counterparts, has undergone a significant transition over the last few years. A 1991 law, designed to make the Italian stock market more modern, efficient, and transparent, established a new type of brokerage company, the Security Intermediation Company, known by its Italian acronym, SIM. SIMs have replaced individual stockbrokers as the primary stock market intermediaries. While supporting reform of the Italian market, U.S. and other foreign firms have objected to a provision of the law

requiring all securities firms wishing to do business in Italy or with Italian clients to establish a SIM in Italy. Due to the costs of establishing a SIM, the law disadvantages U.S. and other foreign firms. 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. It will likely require modification to conform to European Union directives which come into effect in 1996.

Government procurement practices are not completely guided by free market principles. Government procurement in some areas (e.g. heavy electrical equipment, telecommunications, and military hardware) is heavily directed toward Italy-based suppliers. Moreover, procurement procedures are not fully transparent. Except for agricultural products, taxes and customs duties do not present serious obstacles to U.S. exports. 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.

Legislation to bring Italy into conformity with European Union regulations has begun to eliminate some of these structural barriers. The elimination of foreign exchange controls is one example. Legislation to reform the banking system, which took effect on January 1, 1994, is another. Similar legislation for the securities market is expected in 1995. 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 EU market. Despite its serious 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 high costs associated with 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 thirty years. Italy also has a large external debt, though very little of this represents obligations of the Republic of Italy. Italy's foreign assets, primarily in portfolio form, are substantial. Italy's banking system had claims on the so-called debtor countries of 15.1 billion dollars at end-September 1993, more than half of which were accounted for by Russia and Eastern Europe. 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. Two years after the liquidation was announced in July 1992, some foreign banks and creditors still have not been paid.

5. Significant Barriers to U.S. Exports

In Italy highly-fragmented, non-transparent government procurement practices and significant problems with corruption have created obstacles for U.S. firms' seeking to win Italian government procurement contracts. A widening investigation of abuses in this area has created pressure for reform. On January 13, 1994, the Italian Parliament enacted legislation (Merloni law) which should provide more transparent procurement procedures, including establishment of a central body to monitor implementation. However, the reforms envisaged in the legislation will not be fully implemented until 1996 and are under review by the Berlusconi Government.

U.S. agricultural exports to Italy compete with products covered under the EU's Common Agricultural Policy (CAP). For this reason, U.S. products such as meat and sugar continue to be subject to quantitative restrictions which are 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). Additionally, there are restrictions on 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 difficult until Italy implements EU directives on telecommunications services. Multi-user networks are officially outlawed, but sometimes tolerated where need is dem-

onstrated. Mobile phone services are no longer the monopoly of the state-owned telephone utility, SIP. On March 28, 1994, a second cellular operating license was awarded to the Omnitel consortium (40 percent U.S. participation).

In keeping with the 1989 EU Broadcast Directive, Italy's 1990 Broadcast Law requires that upon conclusion of three years from concession of a national broadcast license, a majority of TV broadcast time for feature films be reserved for EU-origin films. The Italian law also requires that half of the European quota be dedicated to Italian films. The Italian law is more narrowly focused than the Broadcast Directive, since it encompasses only films produced for cinema performance, and excludes TV films and series and other programming. The film sector decree-law enacted on January 18, 1994, calls for application of the Italian broadcast quotas proportionately during evening viewing hours, but its language is strictly hortatory.

A separate but related issue concerns films shown in Italian theaters. The film sector law approved by Parliament on February 23, 1994 eliminated obligatory screen quotas for Italian films (heretofore 25 days per quarter subject to closing of the theater, under a 1965 law), and in their place substituted discretionary rebates on Italy's box office tax for theaters that show Italian films. The rebates and eligibility thresholds (percentages of screenings required to qualify) vary according to the category of film. The United States continues its efforts both to obtain elimination of discriminatory laws and regulations in the audiovisual sector and to limit their impact in the interim.

In the areas of standards and standards setting, Italy has been slow in accepting test data from foreign sources, but is 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, 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 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. 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 1994, several major financial institutions and a few industrial concerns had been privatized. U.S. firms served as advisors in several of these privatizations. The government has announced plans to privatize the electricity and telecommunications sectors in 1995. Foreign firms, including U.S. firms, have expressed interest in upcoming privatizations.

The expansion of modern distribution units, such as chain stores, department stores, supermarkets, hypermarkets, and franchises, is severely restricted by local practice and national legislation which subjects applications for large retail units above a certain merchandising surface to a lengthy and cumbersome authorization process. Italy provides a number of investment incentives consisting of tax breaks and other measures to attract industrial investment to depressed areas, especially in the south of Italy.

In September, 1990 the Italian Parliament approved an anti- trust law. The 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 agreements on export subsidies. Through the EU, it is a member of the GATT Subsidies Code. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), which are being scrutinized under CAP reform.. Italy has an extensive array of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides direct assistance to industry and business firms to improve their international competitiveness. This assistance includes export insurance through SACE, the state export credit insurance body, as well as direct export credits. While subsidies to the steel and shipbuilding industries were legally terminated in July 1992, some U.S. industries have expressed concern that these export-promoting subsidies continue.

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 act, reflecting problems with protection of copyrights for computer software and film videos. Enactment in December 1992 of the EU software directive making software copyright violations a criminal offense was a major step forward. Simultaneously, the GOI substantially increased enforcement actions against both video and software pirates and created an Interministerial Anti-Piracy Committee. Other activity has included specialized training courses for Italy's three law enforcement agencies, and creation by the Judiciary of specialized "pools" of prosecutors to press the fight against piracy in several major municipal centers. U.S. consultations with Italy have contributed to improved enforcement action and are continuing to seek a stronger legal framework.

Application of the new software law appears to be making a significant dent in Italy's software piracy problem. Following enactment of the law, Italy's Guardia di Finanza initiated a large number of investigations, seizing 94,000 illegal programs and pressing criminal charges against 60 resellers in 1993. As Italian companies moved to legalize software holdings, U.S. industry reported that the rate of software piracy in Italy declined from an estimated 86 percent in 1992 to 50 percent in 1993 (less than the European average). As a result, the Business Software Alliance reports that sales of packaged personal computer software increased by 331 percent compared to 1992 sales.

Film video piracy remains a serious problem. U.S. motion picture distributors estimate that some 40 percent of the video market consists of pirated material. According to U.S. distributors, the television piracy rate ranges from 6–8 percent and unauthorized film screenings account for 15–20 percent of all showings. U.S. industry has noted a significant increase in raids and confiscation of illegal cassettes and equipment. Italian plans to enact by June 1995 the EU Copyright Duration Directive, which would extend the general copyright term to 70 years, should help address a longstanding issue about protection for older classics.

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 the past, the three major labor confederations had strong historical ties to the three major political parties, but now are autonomous of all political parties and continue to 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. The election of the new Union Representation Units (RSU) in the workplaces, as stipulated in the July 1993 agreement, has begun. So far, less than one-third of all workplaces have held elections. The three major labor confederations have won most of the elections to date. These unions suffered some loss of active worker membership due to the recession in 1993. Small autonomous unions refuse to participate in the RSU elections, and often try to maintain their local union representation structure.

In June 1994, a period of light collective bargaining activity, 170,000 hours were lost due to strikes, one tenth of the total lost in June 1993 (1.7 million hours). In

the period January–June 1994, 2.4 million hours were lost because of strikes, almost 80 percent below the time lost in the corresponding period in 1993 (11.6 million hours). The total time lost in 1993 (23.8 million hours), was the highest recorded since the 1990 strike law was enacted. Most of the strikes were motivated by layoffs and downsizing in industry.

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 new system of collective bargaining 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. The renewal of the major national labor contracts started in early 1994 and is expected to continue into early 1995. More than 10 million workers are covered by these agreements, of which those covering 7 million workers are still pending renewal. Company-level agreements have also been signed in some large and medium-sized enterprises, providing for wage increases tied to productivity and profitability of the firm, introducing more flexibility in the use of the workforce and, in some cases, establishing private pension funds jointly financed by management and labor.

National collective bargaining agreements in fact apply to all workers regardless of union membership. The July 1993 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. The EU has recently approved a directive on Work councils in multinational companies which is aimed at permitting unions and workers to establish European-level representation structures. The directive establishes a two year period for the implementation of European Work Councils. Some multinationals operating in Italy have already established such bodies in anticipation of this directive.

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 workers who are laid off 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 most areas. According to a research study conducted by sociologists among children attending elementary school, the number of children below 15 years of age who work is estimated at 400,000. According to this study most children who work do so not out of need, but because of family cultural reasons, i.e. early access to work is considered a normal activity and is even appreciated by the children. However, in less prosperous parts of the country (primarily in the south), child labor is more prevalent and often involves evasion of compulsory school obligations. A legislative decree approved by the government in August 1994 provided for more severe fines for child labor violations by the employers, but at the same time removed some minor violations from the criminal code.

e. *Acceptable Conditions of Work.*—Minimum work and safety standards are established by law and buttressed and extended in collective labor contracts. The Basic Law of 1923 provides for a maximum workweek of 48 hours — no more than 6 days per week and 8 hours per day. The 8-hour day may be exceeded for some special categories. Most collective labor agreements provide for a 36- to 38-hour week. Overtime may not exceed 2 hours per day or an average of 12 hours per week.

There is no minimum wage set under Italian law; basic wages and salaries are set forth in collective bargaining agreements. National collective bargaining agreements contain minimum standards to which individual employment agreements must conform. In the absence of agreement between the parties, the courts may step in to determine fair wages on the basis of practice in related activities or related collective bargaining agreements.

Basic health and safety standards and guidelines for compensation for on-the-job injury are set forth in an extensive body of law and regulations. In most cases these standards are exceeded in collective bargaining agreements. A legislative decree was approved by the government in September 1994 incorporating into Italian law eight EU directives on health and safety, which had not yet been applied in Italy. Among other things, the decree stipulates employers' obligations in matters of workplace adjustments for disabled employees, establishes safety rules in workplaces and guidelines in the use of computers. 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 1993 the number of work-related deaths in industry decreased by more than 450 compared to 1993 (1,277 compared to 1,729 the year before). In agriculture there were 306 deaths, (131 less than in 1993). These declines were due to the effects of the recession (reduction in working hours and employment) as much as to improved safety measures and the problem of an inadequate number of inspectors continues. 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. A special body which was expected to be set up to monitor industrial accidents is not yet operating. However, appropriate legislation was revised in 1994 providing guidelines in case of dangerous production processes.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		352
Total Manufacturing		8,745
Food & Kindred Products	432	
Chemicals and Allied Products	2,607	
Metals, Primary & Fabricated	215	
Machinery, except Electrical	3,127	
Electric & Electronic Equipment	577	
Transportation Equipment	163	
Other Manufacturing	1,625	
Wholesale Trade		2,086
Banking		182
Finance/Insurance/Real Estate		1,816
Services		513
Other Industries		227
TOTAL ALL INDUSTRIES		13,920

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

KAZAKHSTAN

Key Economic Indicators[1]

[1992 in millions of rubles]
[1993–94 in millions of U.S. dollars unless otherwise noted]

	1992	1993	1994[2]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (pct.)	−14.0	−15.6	−26.9
GDP (at current prices)	1,213,616	3,924.7	97.5
By Sector:			
Agriculture	159,688	988.1	N/A
Energy/Water	N/A	N/A	N/A
Manufacturing	771,568 1,994.9	N/A	
Construction	75,531	442.5	N/A
Transport/Communication	80,716	321.6	N/A
Housing	14,899	N/A	N/A
Financial Services	9,032	N/A	N/A
Trade/Other Branches	150,607	226.1	N/A
Other Services	25,177	N/A	N/A
Government/Health/Education	53,575	N/A	N/A
Net Exports of Goods & Services	1,399	3.4	0.1
Per Capita GDP	71,541	231.0	5.8
Labor Force (000s)	7,356	7,561	7,597
Unemployment Rate (pct.)	0.46	0.50	0.66
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	5,438	1,333.9	671.5
Base Interest Rate[4]	N/A	240	300
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation	938.6	1,296.8	N/A
Wholesale Inflation[5].			
Agricultural Products	1,032	776	1,817
Industrial Products	2,469	1,442	2,985
Consumer Goods	1,344	1,386	2,716
Consumer Price Index[6]	3,061	2,265	534
Exchange Rate (USD/tenge)			
Official	N/A	5.7	49.5
Parallel	N/A	7.5	56.0
Balance of Payments and Trade: (USD millions)			
Total Exports (FOB)	1,398.4	1,270.6	440.6
Exports to U.S.	94.0	135.5	37.1
Total Imports (CIF)	468.8	358.3	242.5
Imports from U.S.	6.0	24.2	15.6
Aid from U.S.[7]	49.1	42.4	144.2
Aid from Other Countries	N/A	115.5	12.5
External Public Debt[8]	N/A	N/A	2,055
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	722.9	1,004
Trade Balance	929.6	912.3	198.1
Trade Balance with U.S.	88.0	111.3	21.5

N/A—Not available.

[1] Source: Kazakhstan State Committee for Statistics (GOSKOMSTAT), unless otherwise indicated. Actual when available, otherwise estimates. Due to limited amount of 1992 information available (exchange rate), figures are in millions of rubles. 1993 and 1994 figures are converted from tenge at the official exchange rates as indicated above.

[2] First six months of 1994 only, unless otherwise indicated.

[3] Source: International Monetary Fund (IMF) and GOSKOMSTAT. 1994 money supply is for nine months.

[4] Average weighted interest rate for six-month National Bank of Kazakhstan credits. Figures represent rates for December 1993 and June 1994.

[5] In percent to corresponding period of previous year. 1994 agricultural wholesale inflation for first three months only.

[6] December of previous year=100.

[7] Source: U.S. Agency for International Development (U.S. AID) and U.S. interagency estimates. 1994 figure represents all U.S. government and private aid as of June 30, 1994.

[8] October 1994 estimate from the Ministry of Finance.

1. General Policy Framework

Kazakhstan continues to suffer through a severe economic crisis. Momentum for economic reform, however, is accelerating. Throughout 1993 and the first half of 1994, industrial output declined, gross domestic product (GDP) dropped, agricultural production decreased, and inflation increased rapidly. Cost of living increases outpaced the salary rise of the average Kazakhstani worker during 1993 and the first half of 1994. In addition, the government's financial crisis has resulted in cutbacks to many public and social services. To stabilize and reverse the economic situation, the government has taken a number of steps, including tightening monetary and fiscal policy after an inflationary surge in early 1994.

On October 11, 1994, President Nazarbayev accepted the resignation of the entire Kazakhstan Cabinet of Ministers. Many of the older and more conservative ministers were replaced by younger, reform-minded individuals. In general, the government shake-up is viewed as a positive step towards accelerating the pace and scope of economic reform in Kazakhstan. This action was preceded by the July 15 issuance of a third (and largely inconsequential) anti-crisis program by the government in the last two years, and by public statements by Nazarbayev advocating the acceleration of market and government reform and public acceptance of economic "shock therapy." It remains to be seen whether, especially in the absence of further political reform, the new government can implement economic reform quickly enough to meet public expectations.

Fiscal Policy: The 1994 budget deficit was approximately 4.6 percent of GDP in 1994. The 1994 deficit was funded primarily by foreign loans and National Bank of Kazakhstan (NBK) credit resources. The proposed 1995 budget, released on September 2, 1994, projects the deficit to be approximately 19.3 percent of GDP. Only 12 percent of the projected 1995 budget deficit is planned to be financed through foreign loans and NBK credit resources. The remaining 88 percent currently remains "without definite resources." The International Monetary Fund (IMF) is reportedly targeting the 1995 budget deficit at 3.5 percent of GDP.

The 1995 budget proposes a nominal 296.6 percent increase in spending over 1994; revenues are projected to increase nominally by 89.2 percent during 1995. New legislation addressing tax reform and relief are also planned. If approved, this new legislation would streamline the current tax system and reduce overall tax rates.

Monetary Policy: During the first five months of 1994, the money supply increased 270 percent; inflation increased during the same period by 370 percent. The NBK has attempted to reduce inflation by regulating the distribution of direct government credits, beginning in May 1994. To date, the NBK efforts appear to have been successful. Monthly inflation rates in August and September were 13.3 percent and 9.7, respectively. The inflation index for the first nine months of 1994 is 832 percent (December 1993 = 100).

The sale of three-month and six-month government bonds began on January 12, 1994. As of October 31, 1994, over 45 auctions have been held by the NBK.

2. Exchange Rate Policy

When introduced in November 1993, the Kazakhstan national currency, the tenge, was not initially traded and its exchange rate against the dollar was artificially maintained by the government. However, upon advice from U.S. officials and international observers, the government permitted the tenge to be freely traded.

On September 17 the governments of Kazakhstan and Kyrgyzstan lifted restrictions on bilateral currency transactions. The agreement permits both currencies, the tenge and the som, to be used as legal tender in investments (securities) in either country and in interbank and trading transactions.

Currently, the government of Kazakhstan does not appear to enforce any major foreign exchange controls, except that enterprises earning foreign exchange are required to sell 50 percent of the total earnings on the local market.

3. Structural Policies

Pricing Policies: Although the government continues to exert price controls and provide subsidies for certain consumer commodities, there appears to be little, if any, impact on U.S. exports to Kazakhstan. In general, consumer goods prices are determined by market sources.

Tax Policies: According to the proposed 1995 budget, government revenues will be derived primarily from corporate income taxes, a value-added tax (VAT), and export duties. At the end of 1993 the government announced a series of tax increases and

enforcement upgrades with apparently little visible success in either. In February 1994 a tax decree raised individual rates to 60 percent. However, this was later lowered to 40 percent. The July 15 anti-crisis program calls for the overhaul and simplification of the current tax system, reduction of overall rates, and improved revenue collection. The government has indicated that the maximum tax rate for individuals and "legal entities" will not exceed 40 percent and 35–40 percent, respectively.

On October 23, 1993 Kazakhstan signed a double taxation treaty with the United States. To date, the treaty remains unratified by either the Kazakhstan Supreme Soviet or the U.S. Senate. However, the Kazakhstan government has indicated that it will submit the treaty for parliamentary approval before the end of 1994.

Regulatory Policies: Government regulation policies are extensive and complex. Implementation of these regulations remains capricious (often varying between ministries) and a major source of corruption. U.S. and western business representatives often complain about the lack of standard licensing procedures.

4. Debt Management Policies

Kazakhstan has accepted liability for all Former Soviet Union (FSU) debt. Accordingly, Kazakhstan was assigned a 3.86 percent share of the FSU's total debt, or approximately $2.5 billion. While acknowledging its formal obligations, Kazakhstan negotiated a "zero option" agreement with the Russian Federation. Under this agreement, Russia accepted full responsibility for FSU debt, in return for all foreign assets of the FSU. Kazakhstan has initially agreed, but since the agreement must be accepted by all successor states, it has not yet entered into force.

To date, Kazakhstan has not paid-off its 1992, 1993, and 1994 debt obligations. Kazakhstan has paid short-term obligations, but commercial creditors have experienced some repayment delays. Currently, Kazakhstan has incurred over $1.5 billion in external debt, primarily to the Russian Federation for gas and fuel payment arrears. In the future, the $115 million Russian lease payment for Baykonur Cosmodrome is to be applied directly to Kazakhstan's debt to Russia. It appears this arrangement will continue in 1995. Barter also appears to be growing as an alternative to hard currency payments.

Excluding the United States, Kazakhstan has received credits from a number of countries including Germany, Austria, France, Japan, Hungary, and Turkey. The U.S. Export-Import Bank (EXIMBANK), the Overseas Private Investment Corporation (OPIC), the Central Asian Enterprise Fund (CAEF), and the Defense Enterprise Fund have indicated their willingness to provide funding for U.S.-Kazakhstan commercial projects. Funding for defense conversion projects is provided separately under the Nunn-Lugar legislation. In addition, international financial organizations such as the International Monetary Fund (IMF), World Bank, and the European Bank for Reconstruction and Development (EBRD) have also indicated a willingness to support commercial projects in Kazakhstan.

5. Significant Barriers to U.S. Exports

There appear to be no significant legal barriers to U.S. merchandise exports to Kazakhstan. The government appears to have adopted a strategy of relatively low import barriers to encourage international exports to Kazakhstan. U.S. exports to Kazakhstan are limited more by the logistical capabilities of private firms to service the Kazakhstan market and the unavailability of credit.

Structural barriers include a weak system of commercial law, including the absence of effective bankruptcy procedures, a shortage of domestic capital to pay for U.S. goods, the lack of an effective judicial process for breach-of-contract resolution, and huge government bureaucracy.

Import Licenses: As of October 1994, U.S. companies were not required to obtain import licenses. Despite indications in late 1993 that the government would limit imports and introduce an import licensing system, no such action has yet occurred. In addition, the government has also proposed restrictions on the import of non-essential goods by means of protective tariffs, duties, and quotas, beginning January 1994. To date, only duties for alcoholic beverages and cigarettes have been increased under this policy.

Service Barriers: Certain restrictions on the import of services exist. In April 1993 the government banned foreign insurance companies from providing foreign investment insurance. Excluding the single western reinsurance firm designated by the government, no U.S. or western firms are permitted to offer foreign investment insurance services in Kazakhstan. A number of U.S. firms offering accounting and legal services, however, are currently operating in Kazakhstan, and U.S. and foreign airlines are welcome.

Standards, Testing, Labelling, and Certification: Government observance of old Soviet standards, testing, labeling and certification requirements are extensive in some areas, non-existent in others. Such requirements constitute a barrier when these requirements differ significantly from U.S. and western standards.

Investment Barriers: One of the most significant investment barriers to U.S. firms in Kazakhstan is the severe lack of domestic capital to service loans and to meet equity percentages in joint ventures. In addition, U.S. firms cannot currently purchase land in Kazakhstan since this sector has not yet been privatized. U.S. firms, however, can obtain lease rights for 99 years through a domestic partner. Further, government and local authorities have, at times, insisted that U.S. firms support and invest in social programs for local communities.

Finally, phased privatization of state industries may initially limit the foreign investment "share" in such industries. However, complete privatization, should it occur, will have no such barriers.

Government Procurement Practices: Government procurement practices are not limited by formal "Buy Kazakhstan" regulations. Western goods, particularly U.S. goods, are favored by the Kazakhstani consumer.

Customs Procedures: Currently, Kazakhstan has a customs agreement with Russia, amounting to a de facto customs union. Kazakhstan still uses customs procedures from the old Soviet Union, which can be cumbersome and frustrating. Most imported goods transit through other newly independent states, unless they arrive by air or via China. Foreign firms can import items for their own use duty free.

6. Export Subsidies Policy

Rather than providing export subsidies to domestic enterprises, the government currently levies an export tax. The precise amount of the export tax varies according to the product and can range up to 30 percent. Kazakhstan has protested antidumping restrictions on its exports (mostly metals) imposed by the United States and the European Union (EU). In 1992, the U.S. Department of Commerce reached a consent decree with Kazakhstan limiting uranium exports and imposing a 104 percent antidumping duty on ferrosilicon. In 1994, the uranium agreement was modified to permit some sales of uranium into the U.S. market. The Commerce Department investigated Kazakhstani exports of titanium sponge and found no direct impact on the U.S. market. Virtually all of Kazakhstan's exports went to Russia.

In 1993, the government moved to further increase controls on exports. Beginning January 1, 1994 domestic enterprises are not permitted to export goods directly and are required to channel exports of 18 critical products through approximately 10 state trading organizations controlled by the government. The critical products include oil and gas, coal and coke, ore and concentrates, ferrous and non-ferrous metals, alumina, precious metals and stones, organic and non-organic chemical products, radioactive chemical elements, grain, cotton, and caviar. These goods are also subject to an 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

In principle, Kazakhstan's civil code protects U.S. intellectual property. However, the absence of criminal sanctions and lax enforcement have meant that U.S. and western intellectual property rights are often unprotected. In 1992 Kazakhstan acceded to the Geneva Convention on the Protection of Intellectual Property and joined the World Intellectual Property Organization. In addition, the U.S.-Kazakhstan Bilateral Trade Agreement, which came into force on January 12, 1994, requires Kazakhstan to protect U.S. intellectual property.

Patents and Trademarks: Current 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. A national patent department which registers and regulates patents and trademarks was established in 1992. In addition, old Soviet patents are apparently being converted to Kazakhstani patents.

The registration or trademarks began in July 1992. Trademark violation is a crime and courts are empowered to arbitrate trademark infringement cases. However, enforcement appears to be rare and arbitrary.

Copyrights: In 1992 Kazakhstan established a national copyright agency with jurisdiction over copyrights in the arts, music, science, and software. In late 1993 the government submitted to the Supreme Soviet a draft copyright law. To date, the copyright law has not been passed. If passed, legal sanctions against copyright violators could be implemented and Kazakhstan would accede to the Berne Convention.

New Technologies: Pirated U.S. and western movies routinely appear on every television station in Kazakhstan, but are not apparently mass produced in Kazakhstan. Sales of pirated counterfeit goods including video and audio recordings

and clothing result in some loss to U.S. industry, but are relatively insignificant. Pirated computer software is available but use is not yet widespread. However, the use of pirated desktop software, i.e., MicroSoft Windows, WordPerfect, etc., does appear to be widespread and increasing rapidly. Illegal software development and manufacture does not occur in Kazakhstan due to limited local availability of advanced products. This appears to apply to other advanced technologies as well.

In addition, pirated satellite broadcasts are common and availability and use appears to be generally widespread. Many television stations routinely broadcast U.S. and western programs and news reports pirated via satellite dish.

Despite lax enforcement of current laws and delays in approving new legislation, overall intellectual property losses to U.S. firms currently appear to be small. However, counterfeiting and pirating of U.S. and western goods is increasing. Without more rigorous enforcement of intellectual property laws and new legislation, future losses to U.S. industry could be significant and potential export and investment opportunities could be lost.

8. Worker Rights

a. *The Right of Association.*—The new labor code, along with the Kazakhstan constitution, guarantees basic workers' rights, including the right to organize and the right to strike. The law does not, however, provide mechanisms to protect workers who join independent unions from threats and harassment from enterprise management or from the state-run unions. Kazakhstan joined the International Labor Organization (ILO) in 1993, but the Supreme Soviet has not yet ratified the ILO conventions.

b. *The Right to Organize and Bargain Collectively.*—There are significant limits on the right to organize and bargain collectively. Most industry remained state-owned in 1994 and was subject to the state's production orders. Although collective bargaining rights are not spelled out in the law, in some instances unions have successfully negotiated agreements with management. If a union's demands are not acceptable to management, they may be presented to an arbitration commission comprised of management, union officials, and independent technical experts. There is no legal protection against anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by law. In some places, however, compulsory labor is used. Some persons were required to provide labor or the use of privately owned equipment with no, or very low, compensation to help gather the annual grain harvest.

d. *Minimum Age of Employment of Children.*—The minimum age for employment is 16. A child under age 16 may work only with the permission of the local administration and the trade union in the enterprise at which the child would work. Such permission is rarely granted. Abuse of child labor is generally not a problem, except that child labor is reportedly used during the harvest, especially the cotton harvest in the south.

e. *Acceptable Conditions of Work.*—As of October 1, 1994 the official minimum wage is 200 tenge (slightly less than four dollars) per month. The legal maximum work week is 48 hours, although most enterprises maintain a 40-hour work week with at least a 24-hour rest period. Worker and safety conditions in Kazakhstan's industries are substandard. Safety consciousness is low. The regulations concerning occupational health and safety, enforceable by the Ministry of Labor and the state-sponsored unions, are largely ignored by management.

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, workplaces or enterprises with U.S. investment have significantly improved working conditions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[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	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		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.

KYRGYZ REPUBLIC

Key Economic Indicators [1]

[Millions of soms unless otherwise noted]

	1992	1993	1994 [2]
Income, Production and Employment:			
Real GDP (1990 prices)	7,100	5,800	4,205
Real GDP Rates (pct.)	−19.0	−18.7	−27.5
GDP (at current prices)	772	5,720	7,388
By Sector:			
Agriculture	N/A	1,739	2,009
Energy/Water/Manufacturing	N/A	2,963	1,899
Construction	N/A	232	750
Services/Other	N/A	785	2,730
Net Exports of Goods & Services	8.3	460.3	671.6
Real Per Capita GDP	N/A	N/A	N/A
Labor Force (000s)	1,525	1,500	1,450
Unemployment Rate (pct.)	0.17	0.29	0.70
Money and Prices:			
Money Supply (M1)	N/A	N/A	N/A
Base Interest Rate [3]	6	N/A	N/A
Personal Saving Rate	4.7	−11.5	N/A
Retail Inflation (pct.)	1,391.0	1,464.0	153.7
Wholesale Inflation (pct.)	1,754.0	1,106.0	516.8
Consumer Price Index	1,079.0	1,495.0	166.7
Exchange Rate (USD/som)			
Official		7.65	10.60
Parallel		8.85	10.90
Balance of Payments and Trade: (USD millions) [4]			
Total Exports (FOB)	131.9	77.6	63.6
Exports to U.S.	N/A	0.0	0.4
Total Imports (CIF)	176.4	26.4	28.7
Imports from U.S.	8.9	15.7	2.1
Aid from U.S.	18.8	83.6	[5] 83.6
Aid from Other Countries	75.0	N/A	28.0
External Public Debt	43.0	45.6	79.3
Debt Service Payments (paid)	0.0	2.2	24.1
Gold and Foreign Exch. Reserves	N/A	N/A	60
Trade Balance	−44.5	51.2	34.9

Key Economic Indicators[1]—Continued

[Millions of soms unless otherwise noted]

	1992	1993	1994[5]
Balance with U.S.	N/A	−15.7	−0.7

N/A—Not available.
[1] All figures used are from Kyrgyz government sources.
[2] Nine-month data in millions of Kyrgyz soms unless otherwise noted.
[3] Average annual interest rate for 1994 was not available. The base interest rate on October 15, 1994 was 185 percent.
[4] Six-month data for 1994.
[5] Fiscal year 1994.

1. General Policy Framework

After the disintegration of the former Soviet Union (FSU) and the achievement of independence in 1991, the Kyrgyz Republic (Kyrgyzstan) inherited an economy which had been highly dependent on the Soviet economy and on budget subsidies from Moscow. Kyrgyzstan is one of the poorest of the FSU republics both in terms of output and resource base. As a result, there was a sharp deterioration of economic activity in 1994. GDP for the first nine months of the year dropped 27.5 percent over the same period of 1993, though it is expected that 1994 GDP will reach the projected figure of 9.38 billion soms (about $900 million) for the entire year.

During 1992 and 1993 the Kyrgyz government took some major steps in transforming the economy from one dominated by central planning to a market oriented economy. A number of progressive changes were made to the legal system, including the adoption of laws on privatization, joint ventures, foreign concessions and investment, and free economic zones. Most prices were liberalized in January 1992, although bread prices were not freed up until February 1994.

In May 1993 an independent national currency, the som, was introduced. At the same time, a stabilization and structural adjustment program was initiated with support and assistance from the IMF, and the World Bank, the United States and other donor countries. Tightened monetary policy, beginning at the end of 1993, resulted in a steady decline in monthly inflation rates (from 33 percent in October 1993 to 0.2 percent in September 1994).

However, the government was unable to meet IMF inflation targets and other performance goals for the end of 1993. The IMF stand-by facility was therefore replaced with an ESAF (Enhanced Structural Adjustment Facility) in July 1994. The ESAF runs three years and its loans are at concessional rates.

The system of government procurement at fixed prices (the so called "state order") was abolished in early 1994 and was replaced by a system where government procurement of a limited range of goods will be accomplished through freely negotiated contracts with suppliers.

Kyrgyzstan's ESAF program requires the government to finance the budget deficit primarily through foreign loans, not the central bank. The budget deficit was 8.2 percent of GDP in September 1994. The deficit arises from social programs (52.5 percent of all budget expenditures) and financing of state owned enterprises (15 percent). To increase revenues, the Kyrgyz government is restructuring the entire tax system. In 1994, the Ministry of Finance was empowered to exercise control over all revenue raising agencies, such as the State Tax Inspectorate and State Customs Administration, both of which are now structural units of the Ministry of Finance. The Tax Police Department, also established in 1994, reports directly to the government. It is expected that a new treasury system will cover all budget transactions nationwide by December 1994.

2. Exchange Rate Policy

Interbank foreign exchange auctions were held twice a week, with the exchange rate of the som depreciating from 8.03 soms to the dollar in January to 10.6 soms in October. The highest point of depreciation was observed in May when the dollar was traded for 12.45 soms.

Since early 1994 all foreign exchange bureaus along with the commercial banks have been permitted to buy hard currency without any restrictions. This resulted in a sharp narrowing to about three percent of the margin between the official auction rate and those of the commercial banks, exchange bureaus and the black market. At the end of October the latter ranged from 10.6 to 10.9.

The NBK intends to eventually replace foreign exchange auctions by direct sales and purchases in the fledgling interbank market.

3. Structural Policy

In 1994 Kyrgyzstan continued its privatization program. To date, 4,800 small and medium size enterprises, constituting about fifty percent of all state enterprises, have been privatized. The rate of privatization is highest in the service sector (99 percent), followed by trade and public catering (93 percent), and then industry (46.5 percent). Privatized enterprises make up 38.1 and 34.5 percent of the construction and agricultural sectors, respectively, and a much smaller percentage in the transportation and wholesale sectors.

Pricing Policies: Price liberalization continued in 1994. The list of goods and services whose prices continued to be regulated was further reduced. Prices for electricity were doubled both for residential and industrial consumers in September 1994, whereas natural gas prices were raised fivefold. However, prices for electricity, natural gas, and heat remain partially subsidized. The government will adjust them in stages with the objective of full coverage of the cost of energy by the end of 1995. Liberalization of bread prices on February 17, 1994 caused prices to double; by September they had risen another 50 percent. State subsidies for bread are scheduled to be eliminated by mid-1995 when state-owned bakeries are privatized.

Tax Policies: Kyrgyzstan's major source of government revenue is the value-added tax (VAT–20 percent) and enterprise profit taxes (35 percent). In order to reverse the rapid decline in tax revenues, the government intends to broaden the base of the VAT, impose a higher excise tax on imported luxury goods, and introduce other taxes and fees. As a temporary emergency measure, in September 1994, the government introduced a five percent sales tax on retail transactions. 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 no 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 by 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 was created under the government (Goskominvest) with responsibility for registering and assisting foreign investors.

In September 1994 a presidential decree was issued amending the Foreign Investment Law and providing further investment incentives. In particular, foreign investors are exempt from a five percent tax imposed on exported profits.

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.

Loans from foreign countries and international financial organizations amounted to $197.5 million, of which 24.1 million (interest payments) were to be paid in 1994. Thus as a percentage of GDP, the external debt is expected to increase from 17.9 percent in 1993 to 19.3 percent in 1994.

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 (MFN) 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 investment in each other's country. The Treaty came into effect in December 1993. 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, Commerce signed an agreement with Kyrgyzstan to suspend the dumping investigation.

7. Protection of U.S. Intellectual Property

A package of laws intended to protect intellectual property rights was introduced in Kyrgyzstan's parliament. However, the extraconstitutional dissolution of the parliament by the president in September 1994 prevented the parliament from completing action on the measure. A newly structured parliament is to be chosen in February 1995 and is expected to review this proposed legislation. 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. While the right to strike is not codified, strikes are not prohibited. 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 and Compulsory Labor.*—Forced or compulsory labor is forbidden except in government prisons.

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 the summer or at part time jobs from the age of 16. The law has been largely observed. However, rapidly deteriorating economic conditions in the country have resulted in a growing number of children working to help support the family.

e. *Acceptable Conditions of Work.*—The standard workweek is 41 hours, usually within a five-day week. An April 1992 law established occupational health and safety standards as well as enforcement procedures. Nonetheless, safety and health conditions in factories are far behind Western standards.

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.

LATVIA

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment: [1]			
Real GDP (1993 prices) [2]	2550.5	2171.2	2171.2
Real GDP Growth (pct.)	−33.8	−15.0	0.0
GDP (at current prices)	1125.2	2171.2	[3] 3457.0
By Sector:			
Agriculture/Forestry	181.05	230.16	345.70
Energy/Water	15.45	148.30	155.57

Key Economic Indicators—Continued

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

	1992	1993	1994
Manufacturing	296.56	454.49	594.60
Construction	52.99	83.77	183.22
Rents	27.64	73.77	79.52
Financial Services	44.14	80.73	117.53
Other Services	67.54	360.41	1169.50
Government/Health/Education	69.66	205.84	380.27
Net Export of Goods & Services	34.94	53.90	−34.67
Real Per Capita GDP (USD)[2]	976	846	855
Labor Force (000s)	1,502	1,458	1,450
Unemployment Rate (pct.)	2.3	5.6	[4] 8.4
Money and Prices (annual percentage growth):			
Money Supply (M2)[1]	169.2	684.4	[5] 1054.9
Base Interest Rate	120	27	27
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation	959	35	23
Wholesale Inflation	N/A	36.3	24.0
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (USD/Lat)			
Official	....	....	....
Market (average)	[6] 0.892	0.676	0.568
Balance of Payments and Trade:[1]			
Total Exports (FOB)	[7] 641.4	[7] 999.9	[3] 2005.0
Exports to U.S.	2.4	22.6	52.8
Total Imports (CIF)	606.5	946.0	[3] 2039.7
Imports from U.S.	15.8	89.5	100.0
Aid from U.S.	6.0	9.0	10.6
Aid from Other Countries	41	27	48
External Public Debt	67.2	236.4	387.2
Debt Service Payments (paid)	1.8	11.6	18.1
Gold and FOREX Reserves 7/	86.8	564.3	[5] 688.7
Trade Balance	34.9	53.9	[3] −34.7
Trade Balance with U.S.	−13.4	−66.9	−47.2

N/A—Not available.
[1] Average exchange rate used (except for Real GDP):1992 - USD 1 equals 0.893 Lat; 1993-USD 1 equals 0.676 Lat; 1994 - USD 1 equals 0.568 Lat.
[2] Real GDP for 1992–1994 at 1993 prices converted at average 1993 exchange rate.
[3] Ministry of Finance estimate. Sector estimates based on 1994 nine months data (January-September, 1994).
[4] National Employment Service estimate.
[5] As of September 31, 1994.
[6] Latvia's currency, the Lat, was not put into circulation until March 1993. The 1992 exchange rate is expressed in Lats converted from Latvian rubles at the official 200/1 ruble-to-lat rate.
[7] Data has not been corrected to reflect fuel imported by Latvia for re-export.

1. General Policy Framework

When Latvia re-established independence in 1991, it also abandoned the Soviet command economic system. Though still in transition, the Latvian economy to a great extent operates on free-market principles. The private sector accounts for over fifty percent of GDP. Privatization has so far been most successful in the agriculture and agribusiness sphere, followed by very small scale manufacturing and retail trade previously under the direction of local governments. The government has pursued monetary and fiscal policies in compliance with IMF guidelines. Consequently, the currency (the Lat), which is fully convertible, is very stable. The government's budget deficit this year is projected to be within two percent of GDP. The decline in GDP, which saw production levels fall to half of the pre-independence level, ended this year. Flat growth is expected in 1994; three to five percent growth in the next several years. Inflation has been brought down from nearly one thousand percent in the first year of independence to thirty five percent in 1993 followed by a gradual decline to about 25 percent in 1994.

Trade policy: A GATT observer since 1992, Latvia submitted a Foreign Memorandum in June 1994 in preparation for accession to the GATT. Latvia follows a liberal

trading regime, though its recently promulgated customs tariff law is more protective of the domestic agricultural market. However, the new tariff levels probably do not negatively affect potential U.S. agricultural exports. Latvia signed a free trade agreement with the European Union, which reduces tariffs on most industrial products to zero and sets out a schedule of tariff reductions over the course of three years for certain agricultural products. Latvia has already concluded free trade agreements with the Nordic countries, Switzerland and Liechtenstein. In April, 1994, a free trade agreement on industrial goods with its Baltic neighbors came into force. A further agreement on agriculture is expected shortly, as are negotiations on a customs union. MFN status with Russia was granted as the result of an exchange of official letters earlier this year. However, as it is not governed by treaty, the arrangement may not be binding.

Latvian fiscal policy is prudent and financial management, in light of the difficulties of adjusting to independent, western-style accounting, is sound. The Finance Ministry is in the process of implementing the general budget law which was passed in April 1994. According to that law, the budget for the next fiscal year is to be presented to the Parliament by October 1. However, submission has been delayed by the government crisis in the summer, which was not resolved until September. In 1994 the government expects a 75 million dollar deficit, about four percent of the total budget, or two percent of GDP. The deficit is caused by increases in pensions and government salaries, and defaults on government backed loans. It is financed primarily by the sale of treasury bills to commercial banks. Difficulties in tax collection and a low tax base constrain revenue development.

The independent central bank also pursues a very conservative policy, with its chief aims being stability of prices and currency. Earlier this year, an inflow of foreign exchange, which the central bank purchased to keep the currency from appreciating (and thereby further eroding export potential) helped to swell the money supply. However, for a number of reasons the flow has stabilized. The bank's main monetary instruments, which are still being developed, are treasury bill sales and cash reserves auctions. One consequence of the tight monetary policy has been the persistence of very high interest rates, which are an impediment to new business activity. Though the rates have fallen over the past year, the average rate for three to six month credit is around fifty percent.

2. Exchange Rate Policy

Though the Bank of Latvia has loosely pegged the currency to the SDR at the rate of 0.7997 Lats to the SDR in order to maintain stability, the exchange rate is largely determined by market forces. The Lat is fully convertible and there are no restrictions on the import, export, exchange or use of foreign currencies inside the country.

3. Structural Policies

The Latvian government has made great strides, but is still in the process of developing the laws and institutions and regulatory framework to support a market economy. 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, indicative prices were set for the procurement of cereals, sugarbeets, flax, meat, milk, and poultry. However, the mechanism has not been effective as farmgate prices have tended to exceed support prices. Moreover, the government has neither the mechanisms to enforce indicative prices nor the resources to compensate farmers for lower prices. 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. Under the draft law, which is expected to be passed shortly, the variable profit tax of 25 to 45 percent will be replaced by a corporate income tax of 25 percent. Until a true VAT is implemented, the government is collecting an 18 percent turnover tax on most goods and services. The existing law on foreign investment provides for tax reductions for up to five years for qualifying foreign investments, but the new law may repeal these tax breaks. 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. The

agricultural sector is exempt from many of these taxes, or taxed at a reduced rate. According to the new law on customs tariffs, import duties on some agricultural products are as high as 55 percent (for countries without MFN status). However, duties on industrial products are minimal or zero for countries in a free trade agreement. Latvia collects an export duty on timber, metals, leather, paper and a few other products.

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 created a supervisory structure. An antimonopoly committee supervises monopolies and examines the tariffs set by public utilities. It can recommend the break-up of large enterprises with high market power and can investigate claims of unfair competition and false advertising. A regulatory body has been set up to oversee the activities of the energy sector and provide rate arbitration for district heating services, electricity and natural gas, which are still provided by monopolies.

Privatization: Privatization of large state enterprises, which has lagged behind other reform measures, has begun to accelerate with the creation of the Latvian Privatization Agency in April 1994. This entity assumed responsibility for all privatization procedures, previously disbursed among various ministries. In early 1995, the first wave of enterprises will be offered for "mass" privatization, i.e., auctioning of shares for privatization certificates (vouchers). This event will also kick-off full operation of the Riga Stock Exchange.

4. Debt Management Policies

As of October 15, 1994, the Government of Latvia's external debt was 329 million dollars, and could increase to 387 million by the end of 1994. G–24 credits constitute 55 million dollars. Latvia has concluded a second standby agreement with the IMF (SDR 22.9 million) and two structural transformation facility agreements (SDR 45.7 million). Latvian compliance with IMF programs has been strong, though a minor problem with budget financing led to temporary suspension of disbursement of the second tranche of standby credits. On September 30, 1994, Latvia's official foreign exchange and gold reserves were valued at 688.7 million dollars, covering nearly six months of exports. The ratio of debt service to exports is a very modest 1.50 percent.

5. Significant Barriers to U.S. Exports

The main barriers to U.S. exports to Latvia are structural. While considerable improvement has occurred over the last year, Latvia's business, banking and legal infrastructures have not yet attained Western standards.

Under the 1991 Investment Law, the laws of the Republic of Latvia apply equally to domestic and foreign investors. However, there are some restrictions on foreign investment. Acquisition of controlling shares in a Latvian enterprise with assets exceeding one million dollars must be approved by the Cabinet of Ministers. Foreign investors may engage in, but not obtain control over enterprises engaged in activities related to national defense; the manufacture and sale of narcotics, weapons and explosives, securities, banknotes, coins and stamps; the mass media; national education; acquisition of renewable and nonrenewable national resources; internal fisheries; hunting; and port management. Latvia does not restrict the repatriation of profits. The Bank of Latvia must approve the establishment of a foreign bank branch. The United States and Latvia signed a bilateral investment treaty in January 1995.

Latvia requires a license for the import of grain and sugar to protect domestic production. In the case of grain, the importer is required to demonstrate purchases from domestic producers. The sugar licensing restrictions poses problems for foreign (or domestic) producers of high quality food products which use sugar, as the domestic product is considered to be of inferior quality. A special permit granted by the Cabinet is required for the import or transit of weapons, explosives or pornographic materials.

Latvia is still formulating food safety standards. Meat imports are subject to inspection by the state veterinary department for infectious diseases. As of June 1, 1994, imported food products are required to have conformity certificates to guarantee quality and wholesomeness of food products.

6. Export Subsidies Policies

The Latvian government does not currently provide export subsidies. However, the Ministry of Agriculture intends to use state funds allocated for improvement in animal husbandry to subsidize the export of butter, cheese and rye. (Export subsidies for rye is intended to be a temporary measure to get rid of excess stocks.)

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.

In July 1994, President Clinton signed an Agreement on Trade Relations and Intellectual Property Rights Protection with Latvia. Latvia has been a member of the World Intellectual Property Organization since January 1993 and signed the Paris Convention in September 1993. Latvia will accede to the Madrid, Nice and Budapest Conventions in December 1994. Latvia also intends to become party to the Bern Convention not later than December 31, 1995.

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 that are rebroadcast directly by Latvian television.

Latvia's intellectual property practices have not had an 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 mandate that workers, except for uniformed military, have the right to form and join labor unions of their own choosing. About 50 percent of the work force belongs 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, although some leaders ran as candidates for various smaller parties that failed to enter Parliament in the 1993 elections. 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, but few strikes were actually held in 1994. On September 2, 1994, the majority of Latvia's teachers participated in a one-day strike to protest low wages. 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 marginal.

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 negotiations 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 higher salaries and greater 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. In October 1994, the minimum monthly wage was set at about 50 dollars (28 Lats). Latvian laws establish minimum occupational health and safety standards for the workplace, but these standards seem to be frequently ignored.

f. Rights in Sectors with U.S. Investment.—The only significant U.S. investment is in the manufacture of food and related products. Conditions do not differ from those in other sectors of the economy.

LITHUANIA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (pct.)	−37.7	−17.1	−13.0
GDP (at current prices)[2]	6,191.5	2,725.0	909.5
By Sector:			
Agriculture	229.0	305.2	266.3
Energy/Gas	154	158	N/A
Manufacturing	228	733	275
Construction	340.9	215.2	48.6
Rents	N/A	19.1	N/A
Financial Services	52.9	98.1	771.7
Other Services	102.0	449.6	N/A
Government/Health/Education	N/A	262.2	N/A
Net Exports of Goods & Services	852.3	1,242.2	N/A
Real Per Capita GDP (1985 base)	470.5	684.0	682.0
Labor Force (000s)	1,879.0	1,859.3	N/A
Unemployment Rate (pct.)	1.2	3.6	3.2
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	N/A	680.2	771.7
Base Interest Rate[4]	120	95	95
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	1,163	270	180
Wholesale Inflation Consumer Price Index	N/A	72.2	80.4
Exchange Rate (USD/LT)			
Official	3.79	4.50	4.00
Parallel	3.79	4.50	4.00
Balance of Payments and Trade:			
Total Exports (FOB)	269.3	1,334.0	161.5
Exports to U.S.	4.0	4.8	9.0
Total Imports (CIF)[5]	192.9	1,402.2	230.0
Imports from U.S.	N/A	26.4	26.0
Aid from U.S.	10	25	25
Aid from Other Countries	129.9	216.9	408.0
Debt Service Payments (paid)	5	25	N/A
Gold and Foreign Exch. Reserves	232	253	309
Trade Balance	76.5	−68.2	68.5
Trade Balance with U.S.	N/A	−21.6	−17.0

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] In broad money as defined by the IMF.
[4] Figures are actual, average interest rates, not changes in them.
[5] Merchandise trade.

1. General Policy Framework

Since declaring independence in 1990, Lithuania has implemented reforms aimed at eliminating the vestiges of the former socialist system. In 1992, with the help of the IMF and other international institutions, Lithuania adopted a program to restrain inflation, reduce price controls, lower the budget deficit and privatize the economy. Lithuania has undertaken a series of price liberalizations, and most price controls have been abolished. Most businesses have been privatized and private citi-

zens are allowed to own land. The government is eager to encourage foreign investments and open new trade ties with the West. Trade ties with Russia and other former Soviet republics are expected to continue, but at a reduced rate. Lithuania is seeking to further liberalize its foreign investment laws. The Lithuanian government is following a cautious, but Western-oriented program of economic reform in banking and monetary policies, price structure, tax laws, land ownership laws, fiscal policy and foreign trade legislation.

Inflation subsided during 1994 as a result of tight monetary policies. Wage restraint, partly through the pursuit of a tight incomes policy, and significantly reduced subsidies to state agricultural and industrial enterprises have reduced the budget deficit. Tax reform, including the introduction in mid-1994 of excise taxes and a value added tax, has increased government revenues. Social programs and subsidies consume the bulk of budgetary expenditures.

In April 1994, Lithuania adopted a currency board arrangement under which central bank reserve money and liabilities denominated in the local currency are fully backed by foreign exchange at a fixed rate. Growth in the money supply is tied to growth in foreign exchange reserves.

2. Exchange Rate Policy

On June 20, 1993, Lithuania introduced its own national currency, the litas. In April 1994 the Lithuanian currency board fixed the rate of exchange at four litas to one U.S. dollar.

3. Structural Policies

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. In May 1994, Lithuania introduced an 18 percent value added tax. The value added tax is applied to most imports. Taxes are levied on wages through the personal income tax and through employees' and employers' contributions to the Social Insurance Fund. Enterprise profits are taxed at rates of between 20 and 30 percent. Reduced rates apply for agricultural enterprises, small-scale enterprises, and reinvested profits. Joint ventures with foreign capital are exempt from the profits tax for up to three years. Profit taxes of joint ventures are determined by the amount of foreign investment in the authorized capital and the type of activity (industrial or commercial). 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.

Regulatory Policies: There are no performance requirements imposed by law as a condition for foreign investment. However, in tendering bids for purchasing privatized companies or forming joint ventures with state companies, foreign companies are often required to offer employment guarantees or technology. Lithuanian law gives foreign investors the right to lease land for 99 years, but bars foreigners from owning land.

4. Debt Management Policies

Lithuania has acknowledged only that portion of the Soviet debt incurred by Lithuanian entities for use in Lithuania. Negotiations on this matter are in progress. Lithuania has received balance of payments support from the European Union and the G–24 countries. The IMF has provided a stand-by arrangement and a systematic transformation facility. The World Bank and the European Bank for Reconstruction and Development have contributed infrastructure and import rehabilitation loans.

5. Significant Barriers to U.S. Exports

There are no direct barriers to U.S. exports. However, U.S. exports are adversely affected by the absence of an established infrastructure for trade, such as in telecommunications and banking facilities. U.S. exporters are also hampered by the lack of import financing and other credit facilities. Customs procedures at border crossings are time-consuming and burdensome owing to the lack of trained personnel and inconsistent application of customs regulations.

The May 1991 law on prohibited and limited spheres for foreign investment determines the areas of economic activity 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 commu-

nications, electricity delivery, gas, oil and water supply, heating and sewage systems are also considered to be monopolistic.

6. Export Subsidies Policies

The government exercises controls on exports of certain scarce commodities. There are no export subsidies.

7. Protection of Intellectual Property

Upon regaining its independence, Lithuania declined to assume formally any binding legal obligations undertaken by the former Soviet Union. In the area of intellectual property, Lithuanian policy has been to observe international standards and to consider subscribing to international conventions beyond those accepted by the independent Lithuanian governments before World War Two. In 1990 Lithuania joined the World Intellectual Property Organization (WIPO) and it plans to sign the Paris Convention for the Protection of Industrial Property. In April 1994 Lithuania signed an agreement with the U.S. for the protection of intellectual property. The Lithuanian parliament is considering laws for copyright enforcement, including amendments to the criminal and civil codes.

8. Worker Rights

a. *The Right of Association.*—The 1991 Law on Trade Unions and the Constitution recognize the right of workers and employees to form and join trade unions and, with certain limitations, to strike. There are no restrictions on unions affiliating with international trade unions.

b. *The Right to Organize and Bargain Collectively.*—The Lithuanian Collective Agreements Law confirms the right to organize and bargain collectively. Lithuanian trade unions engage in direct collective bargaining at the workplace as wage decisions are increasingly being made at the enterprise level. The government issues periodic decrees that serve as guidelines for state enterprise management in setting wage scales.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced labor, and this prohibition is observed in practice.

d. *Minimum Age of Employment for Children.*—The minimum age for employment of children is 16. Twelve years of schooling are 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 workplace. However, worker complaints indicate that these standards are sometimes ignored. The minimum wage is adjusted periodically by the parliament, but enforcement of the minimum wage is almost nonexistent.

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 exceptions.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA (FYROM)

War in nearby Bosnia has severely hurt the FYROM economy and complicated efforts at economic reform. The FYROM has suffered a breakdown of trade and capital flows, and lacks the resources to shore up a weakened, inadequate infrastructure, let alone to finance new east-west links that will be needed for long-term development. The Greek embargo, imposed in February 1994, compounded the country's economic woes by cutting access to the region's main port of Thessaloniki. There has been limited success in efforts to reroute trade along existing east-west routes; nevertheless, significant bottlenecks remain at the border crossings with Bulgaria. The Greek embargo, in particular, has hurt industrial competitiveness by raising input costs, as overcrowded alternate transport routes are far more costly than shipping through Thessaloniki.

Despite a harsh economic climate, the FYROM government put into place a modest economic stabilization program in the spring of 1992. This program has received much praise from IMF officials. Inflation recently dropped to 2 percent per month. The average monthly salary was $126 by the end of 1993—less than the cost of food for the average family, but still considerably more than the average monthly salary in Serbia.

The U.S. contributed $5 million to a multilateral effort to clear the FYROM's arrears with the World Bank in early 1994, which in turn unlocked the country's first

Economic Recovery Loan from the Bank. The June 1994 World Bank Consultative Group meeting only partially succeeded in filling the projected 1994–1995 balance of payments gap of $110 million. Progress on this count is needed to enable the IMF and IBRD to move ahead with their planned programs in 1995.

MOLDOVA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1991 prices)	3,940	6,000	N/A
Real GDP Growth (pct.)	−27	−14	−3
GDP (at current prices)	53,750	583,610	2,138
Gross Output by Sector:			
Agriculture	25,900	269,530	N/A
Energy/Water	N/A	N/A	N/A
Manufacturing	57,570	772,630	N/A
Construction	6,950	63,170	N/A
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	144	1,540	N/A
Government/Health/Education	N/A	N/A	N/A
Net Exports of Goods & Services	N/A	N/A	N/A
Real Per Capita GDP	N/A	N/A	N/A
Labor Force (000s)	2,460	2,448	2,479
Unemployment Rate (pct.)	16.7	15.5	30
Money and Prices:			
Money Supply	87,155	376,303	160,650
Base Interest Rate	N/A	12	[2] 25
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation (pct.)	1,500	2,000	100
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	[3] 256
Exchange Rate (USD/MDL)	401	364	[4] 403.96
Balance of Payments and Trade:			
Total Exports (FOB)	18.06	360	600
Exports to U.S.[5]	0	0	2.4
Total Imports (CIF)	25.81	513	759
Imports from U.S.[5]	2	31	26.4
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	38	29
Debt Service	N/A	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	76	68
Trade Balance	−37	−162	−255
Trade Balance with U.S.[5]	−2	−31	−24

N/A—Not available.
[1] 1994 Figures are estimated based on available eight-month data.
[2] 1994 Interest rate is estimated based on five-month data.
[3] Consumer price index is reported in Mondovan lei (MDL).
[4] 1994 Exchange rate is estimated based on available eleven-month data.
[5] 1994 figures are estimates based on January-October data.

1. General Policy Framework

Moldova is a small landlocked country located in the extreme southwest region of the former Soviet Union (FSU). The economic life of Moldova was highly integrated with that of the FSU, and disintegration of the FSU seriously affected Moldova's economy. The agriculture and industrial sectors each account for about 42 percent of total economic output. Moldovan industry previously was organized to

supply markets in the FSU, with production concentrated in consumer goods and defense-related products.

In accordance with a presidential decree dated January 17, 1994, the National Bank of Moldova (NBM) was charged with regulating the money supply. The National Bank of Moldova allocates about 80 percent its available credit through credit auctions. The volume of credit offered is determined by a monetary-credit program. Introduction of credit auctions has helped reduce inflation and the cost of financing.

The National Bank of Moldova has implemented faithfully the program agreed to by the government and the International Monetary Fund (IMF) to restrict growth of the money supply. As a consequence, the stability of the lei has improved significantly in the first half of 1994.

2. Exchange Rate Policy

Moldova no longer has a policy of multiple exchange rates. Since the introduction of the national currency the National Bank of Moldova has moved to liberalize its currency market. An interbank foreign stock exchange was established in August 1993. Auctions are held three times a week for U.S. dollars, Russian rubles, Romanian lei, and German marks.

3. Structural Policies

Moldova officially liberalized prices of most consumer goods in January 1992, though some products continue to remain subject to controls. Imported goods were exempted from regulation at the wholesale level, but can be subject to controls at the retail level.

Tax rates in Moldova are as follows: income tax for enterprises–30 percent; value-added tax–20 percent; import tax, excise tax on wine and tobacco production, natural gas, and luxury items–from 10 to 80 percent; agricultural enterprises. Farmers pay a land tax calculated on the basis of the total land area and its quality.

The government has developed much of the legal framework needed to support a market economy. The Moldovan parliament has adopted laws covering private ownership of property, foreign investments, bankruptcy, leasing, privatization of state enterprises, as well as formation of joint-stock companies.

4. Debt Management Policies

Moldova is a member of several international financial organizations, including the IMF, the International Bank for Reconstruction and Development (IBRD), and the European Bank for Reconstruction and Development (EBRD).

5. Significant Barriers to U.S. Exports

Moldova has taken steps to simplify policies surrounding its trade regime. With the exception of unprocessed leather, energy products, cereals and cereal products, all export quotas were removed in June 1994. Export licensing was eliminated, except for national security, medical and cultural products. Moldova has observer status in the General Agreement on Tariffs and Trade (GATT).

In July 1994, the Moldovan government began requiring certification of imports by the Moldovan Department for Standards, Metrology and Technical Oversight or by the Geneva SGS International Association. The stated purpose of the certificate is to ensure the high quality of imported goods. Goods and services determined by the government to be harmful for customers may not be advertised. These include tobacco and tobacco products; hard alcohol; narcotic drugs; preservatives and food additives; and non-traditional curative methods that are not approved by the Moldovan Ministry of Health. The Department of Standards, Metrology and Technical Oversight is in charge of establishing and accrediting bodies that certify imported products.

Barriers to foreign trade and investments in Moldova include an underdeveloped banking, insurance, legal, and travel services.

Other investment barriers are as follows:

—Prohibition of land ownership: Existing law prohibits the sale of land to foreigners. However, the government is examining land legislation with the view of permitting such sales.

—Targeting of favored industries for development: In an October 1993 decree the government stated it would give preference to investment in the following industries: radio and electronics; chemical and pharmaceutical industry; food processing industry; telecommunications; railway equipment; packing industry; biotechnology; detergent and soap manufacturing industry; and goods for children.

—Limitations on foreign equity participation: Although the government has taken steps to liberalize the economy, only Moldovan citizens can participate in privatization of enterprises sold for patrimonial bonds at the auctions. However,

Moldovan citizens can sell their shares to foreign businessmen. The government plans to give greater opportunities for foreign investment. Once ratified, the U.S.-Moldova bilateral investment treaty will provide substantial assurances to U.S. investments.

6. Protection of U.S. Intellectual Property

Laws protecting intellectual property (IP) and their enforcement are poor, resulting in widespread piracy. There is serious infringement of software, cable television, audio and video cassettes, and books. The Department on Intellectual and Industrial Property Protection has drafted IP legislation which the parliament plans to review soon.

7. Worker Rights

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 laws passed in 1989 and 1991, gave citizens the right to form social organizations, and provided a legal basis for the formation of independent unions. The new constitution, adopted in 1994, declares that any employee may form or join a union. However, there have been no apparent attempts to establish alternate trade union structures independent of the existing organizations that were part of the Soviet trade union system. Non-government workers (except those in essential services) have the right to strike, but there were no strikes in 1994. Moldovan law, which is still based on former Soviet legislation, provides for collective bargaining. Wages are set through a tripartite negotiation process involving government management and unions.

Forced labor is prohibited by Article 44 of the new constitution. No cases of forced labor have been reported.

The minimum age for employment under unrestricted conditions is 18. Employment of those aged 16–18 is permitted under special conditions, including shorter work days, no night shifts, etc. Moldovan industry does not employ child labor, although children living on farms do sometimes assist in agricultural production.

The average wage is 100 lei (about $25 in December 1994) per month. The new constitution sets the maximum workweek at 40 hours, and the labor code provides for at least one day off a week. The state is required to set and check safety standards in the workplace. Workers have the right to refuse to work but may continue to draw salaries if working conditions represent a serious threat to their health. The declining economic situation, however, has led to a decline in safety standards.

THE NETHERLANDS

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1990 prices)[2]	287,371	288,520	294,290
Real GDP Growth Rate (pct.)	1.4	0.4	2.0
GDP (current prices)[2]	302,806	308,779	320,564
By Sector:	3/		
Agriculture	10,753	10,054	10,215
Energy/Water	4,839	5,000	5,107
Manufacturing	110,054	107,204	109,677
Construction	16,183	16,667	17,204
Rents	26,389	28,655	30,295
Financial Services	13,871	14,677	15,054
Other Services	82,742	87,796	89,785
Government/Health/Education	29,731	30,645	31,183
Net Exports of Goods & Services	13,521	15,467	16,667
Real Per Capita GDP (USD)	18,995	18,900	19,153
Labor Force (000s)	6,158	6,233	6,306
Unemployment Rate (pct.)	6.7	7.7	8.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.6	8.5	6.0

Key Economic Indicators—Continued

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

	1992	1993	1994
Base Interest Rate[4]	8.7	8.1	6.4
Personal Savings Rate	9.1	8.7	9.0
Retail Inflation	2.0	1.3	1.1
Wholesale Inflation	−1.2	−1.9	0.0
Consumer Price Index	106.4	109.2	112.2
Exchange Rate (guilders/USD)			
Official	1.76	1.86	1.85
Balance of Payments and Trade:			
Total Exports (FOB)[5]	128,736	126,290	133,790
Exports to U.S.	5,287	5,451	6,000
Total Imports (CIF)[5]	122,269	117,500	124,516
Imports from U.S.	13,746	12,839	14,000
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Debt Service Payments (paid)	14,689	15,791	18,509
Gold and Foreign Exch. Reserves (end of period)	35,086	40,449	40,806
Trade Balance[5]	6,467	8,790	9,274
Trade Balance with U.S.	−8,459	−7,388	−8,000

[1] Estimates based on available monthly data in October 1994.
[2] GDP at market prices.
[3] GDP at factor costs.
[4] Figures are actual, average annual interest rate.
[5] Merchandise trade.
[6] All of dollar figures have been converted to the exchange rate of $1 = 1.86 guilders for 1993.
Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB)

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for: stable industrial relations fostered through consultations among employers, unions, and government; a large current account surplus from trade and overseas investments; natural gas exports making Holland a net exporter of a popular fuel; a geographic location as a European transportation hub with the world's largest port (Rotterdam), one of its top airports (Amsterdam-Schipol), and an excellent road and rail system, making it a prime production and distribution center for foreign firms seeking access to Europe.

Dutch trade and investment policy is among the most open in the world. The government has reduced its role in the economy since the 1980s, and privatization continues with little debate or opposition. Nevertheless, the state dominates the energy sector and plays a large role in transport, chemicals, aviation, telecommunications, and steel.

Elections in May 1994 produced a new, three-party, left-right coalition government. The government inherits an economy that moved out of shallow recession in 1993 (GDP grew 0.4 percent) and that has begun sustained, export-led growth. Growth is expected to be at least 2 percent in 1994, and near 2.8 percent in 1995. The consensus forecast is for annual average growth of 2.2 percent over the next four years (although the Finance Minister has warned of a possible downturn in the international business cycle after 1996). Inflation is low and falling; 1994 CPI inflation is expected to be 2.8 percent, slowing to 2.7 percent in 1995. Nonetheless, the government must grapple with a number of structural economic problems if the Dutch economy is to fully live up to its potential.

A key government goal is to stimulate the creation of 350,000 new jobs over the next four years. A cut in the "collective burden" of taxes and social security contributions is seen as key to boosting employment and improving competitiveness, but Dutch industry is not convinced the government is doing enough on this score. The government also plans to continue (and perhaps speed up) the process of deregulation and antitrust reform begun under the previous government.

With much "fat" in spending already pared away, budget cuts are getting into areas which were regarded as untouchable: development aid, social security, de-

fense, education. The 1995 budget cut spending by 4.6 billion guilders ($2.5 billion). Total planned cuts are 18.2 billion guilders ($10 billion) by the end of 1998. A combination of budget austerity and economic growth will reduce the budget deficit from the current 3.75 percent of GDP to 3.3 percent of GDP in 1995. Public debt will rise from 79.4 percent of GDP at the end of 1994 to 79.9 percent in 1995.

The deficit is largely funded by government bonds. Since January 1, 1994, financing has also been covered by issuing Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the central bank which, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Monetary System (EMS) was introduced in 1979, the Netherlands Central Bank (NB) has maintained a stable exchange rate between the guilder and the German mark using interest rate policy. The guilder is one of the strongest currencies in Europe. When the EMS fluctuation bands widened to 15 percentage points in August 1993, the Dutch and Germans agreed to keep the guilder in the original 2.25 point fluctuation band. Because Germany is the Netherlands' main trading partner, the link with the mark is expected to stay intact. A strong guilder should encourage Dutch imports from the United States and reduce exchange rate risks to U.S. investors in the Netherlands. There are no multiple exchange rate mechanisms.

The NB exerts control over money market rates by adjusting short-term rates and by varying the terms of banks' access to NB financing. The NB's open market policy gives the bank a tool to signal the market the way it wants it to develop. For this purpose the NB uses a three billion guilder portfolio of Treasury issues from which it buys or sells.

There are no exchange controls, although Netherlands residents must obtain an exchange license for certain large international financial transactions.

3. Structural Policies

Limited, targeted investment incentives have been a well-publicized tool of Dutch economic policy to facilitate economic restructuring, and to promote energy conservation, regional development, environmental protection, research and development, and other national goals. Subsidies and incentives are available to foreign and domestic firms alike and are spelled out in detailed regulations. Subsidies geared to the previous objectives 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 strictly investment incentive currently available, aims to encourage investment in areas with high unemployment with subsidies for new investments (industrial buildings and fixed assets). The IPR applies to investments of which at least 25 percent is 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. Local subsidies are also available from regional development companies.

To combat relatively low spending on research and development by Dutch firms, the government set up "Senter," an independent agency to encourage and financially assist firms in innovative research and development projects in targeted fields. Senter's programs are open to firms without regard to nationality of ownership that have Dutch-based research and development operations. There are few restrictions on size and other elements of participating firms, and selection for funding is competitive.

Senter emphasizes technology transfer, and many programs are geared to linking firms from diverse sectors. Senter has a 700 million guilder (over $376 million) annual budget. A similar agency, "Novem," has a 300 million guilder ($161 million) budget for energy and environment-related programs.

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 can clarify, often favorably, tax situations that may be open to interpretation.

In November 1993 the previous government set up a 900 million guilder (about $484 million) industrial fund to finance restructuring projects by medium and large Dutch enterprises. The money came from the government, commercial banks, insurance companies, pension funds, and the National Investment Bank. Financing for new projects is available up to a ceiling of 50 million guilders per project. The fund was intended to improve the structure and competitiveness of the economy, but has so far been used by just one company.

4. Debt Management Policies

With a current account surplus of three percent of GDP in 1993 and no external debt (all public debt is denominated in guilders), the Netherlands is a major creditor nation. Nonetheless, since the early eighties, the gross public debt of the public sector (EMU criterion) has grown sharply, to 79.4 percent of GDP in 1994. If current policies are followed, most observers predict little decrease in the debt as a percentage of GDP in the next four years. Debt servicing and rollover have risen to nearly ten percent of GDP. All of the government's financing needs (budget deficit and debt servicing) are covered on the Dutch domestic capital market. There are no difficulties in tapping the domestic capital market for loans. Government bond issues are usually over-subscribed, and public financing requirements have recently been met long before the end of each fiscal year. Since the late eighties, the Dutch have significantly improved their fiscal balance. The Netherlands is a participant in and strong supporter of the IMF, IBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch economy is an open one. Dutch merchandise and services exports represent more than 50 percent of GDP, making 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 being a country with which the United States has one of its largest bilateral trade surpluses: $7.4 billion in 1993. Total U.S. exports to the Netherlands in 1993 were down seven percent over 1992. However, a nine percent increase is forecast for 1994. In 1993, imports from the U.S. accounted for nearly 11 percent of total Dutch imports. The Netherlands is among the top three direct investors in the United States, along with the United Kingdom and Japan; Dutch accumulated investment in the United States in 1993 grew to 68.5 billion dollars. The U.S. is the largest investor in the Netherlands: U.S. direct investment fell slightly, to about 19.9 billion dollars in 1993.

Most trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters to the Netherlands:

Agricultural Trade Barriers: Agricultural trade bariers are generally driven by the Comaon Agricultural Policy (CAP), and common external tariffs that serve to severely limit imports of U.S. agricultural products. Bilateral import barriers are confined to the restrictive acceptable limits of Aflatoxin in peanut imports. These limits are independent of EU directives and at times, serve to restrict U.S. peanut imports.

Offsets for Defense Sector Contracts: The defense ministry requires all foreign contractors to provide at least 100 percent offset/compensation for defense procurements over five million Dutch guilders (about $2.7 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or sub-systems of the weapons systems it is buying.

Broadcasting and Media Legislation: Liberalizing amendments to the Dutch Media Act admitting local and foreign commercial broadcasters into the Dutch cable network took effect in 1992. Dutch compliance with the EU Broadcasting Directive and its 50-percent-EU-content-where-practicable requirement is not primarily a bilateral issue, but one between the United States and the EU. U.S. television programs are popular and readily available in the Netherlands.

Cartels: Although the export sector of the Dutch economy is open and free of competition restraints, cartels 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 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 to curtail cartels, the government in 1993 and 1994 introduced legislation to break up the cartel system. The new government is expected to proceed quickly with the anticartel bill. For the time being, cartels are a potential threat to foreign firms seeking to do business in the Netherlands. However, the U.S. Embassy knows of only two complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands, and these did not involve exports.

Public Procurement: Central government procurement is generally open and transparent and complies with the EU procurement directive and the GATT government procurement code. However, independent studies show that transparency and enforcement in this area can be deficient, especially at the local authority level, and with offset or local content requirements.

In this regard, the EU utilities directive may have a positive effect. It requires more public notification and ending the virtual monopoly of two Dutch companies in public utility construction for local authorities. However, the U.S. Embassy has received no complaints from U.S. firms since 1992. Because U.S. firms operate primarily in the export-oriented sector of the economy and at the central government

level of procurement, they appear to have experienced little discrimination in public procurement sector since 1992.

6. Export Subsidies Policies

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. These 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 (about $5.4 million) 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. With the purchase of a majority interest in Fokker by Deutsche Aerospace (DASA), it is expected that the Dutch government (which had owned 31.8 percent of the company) will reduce support of Fokker.

There are some subsidies for shipping. Under strict conditions, 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) tc 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 antipiracy 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. The enforcement of antipiracy laws remains a concern to U.S. producers of software, audio and video tapes, and textbooks. The Dutch government has recognized the problems in protecting intellectual property. Legislation was enacted in early 1994 to explicitly include computer software as intellectual property under the copyright statutes.

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 also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting workers' rights internationally. 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 eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people, the Netherlands has a reduced minimum wage for employees between ages 16 and 23.

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 cost of living adjustments.

f. *Rights in Sectors with U.S. Investments.*—The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,055
Total Manufacturing		7,775
Food & Kindred Products	955	
Chemicals and Allied Products	3,406	
Metals, Primary & Fabricated	494	
Machinery, except Electrical	991	
Electric & Electronic Equipment	468	
Transportation Equipment	80	
Other Manufacturing	1,382	
Wholesale Trade		3,090
Banking		131
Finance/Insurance/Real Estate		5,199
Services		1,845
Other Industries		791
TOTAL ALL INDUSTRIES		19,887

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

NORWAY

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1991 prices)	109,542	112,074	117,229
Real GDP Growth (pct.)	3.4	2.3	4.6
GDP (at current prices)	113,197	103,478	109,300
By Sector: (1991 prices) [2]			
Agriculture/Forestry/Fishing	3,066	3,113	3,439

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Energy/Shipping	25,069	25,948	27,994
Manufacturing/Mining	14,815	15,057	15,358
Construction	3,812	3,695	3,880
Dwellings	5,243	5,295	5,417
Financial Services	4,216	4,233	4,403
Other Services	35,430	36,185	37,484
Government/Health/Education	17,890	18,383	19,141
Net Exports of Goods and Services	8,233	7,024	6,629
Real Per Capita GDP ($, 1991 base)	25,535	25,961	26,986
Labor Force (000s)	2,130	2,131	2,145
Unemployment Rate (pct.)	5.9	6.0	5.5
Money and Prices:			
Money Supply (M2) (pct. ch.)	7.3	0.5	5.0
Base Interest Rate /3 (pct.)	12.6	6.8	7.0
Personal Savings Rate (pct.)	5.2	5.3	4.3
Producer Prices (pct. ch.)	−0.4	−1.0	1.6
Prices (pct. ch.)	2.3	2.3	1.3
Exchange Rate (NOK/USD)	6.21	7.09	7.00
Balance of Payments and Trade:			
Total Exports (FOB)	35,376	32,136	33,971
Exports to U.S.[4]	1,782	1,901	2,243
Total Imports (CIF)	26,793	24,930	27,800
Imports from U.S.[4]	2,225	1,889	2,286
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	8,552	9,789	12,335
Debt Service Payments (paid)[5]	454	448	437
Gold and Foreign Exch. Reserves	13,606	21,813	20,000
Trade Balance	8,583	7,206	6,171
Balance with U.S.[4]	−443	12	−43

[1] 1994 Figures are all estimates based on monthly data in October 1994.
[2] Only available at constant 1991 prices.
[3] Central Bank overnight lending rate; not annual pct. 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 has less than 5 million inhabitants. 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 international competition. These will likely experience a painful period of adjustment in the years ahead as the government adapts to provisions of the Uruguay Round trade agreement and to the emerging EU single market.

Norway and the other EFTA countries have concluded a free trade agreement with the EU–the European Economic Area (EEA) Accord–which came into effect on January 1, 1994. Norway concluded an EU accession accord on March 16, 1994, but in a referendum held on November 28, Norway rejected EU membership.

State intervention in the economy is significant. The two dominant industrial groups—Statoil and Norsk Hydro—are state controlled, and the state retains majority stakes in Norway's top three commercial banks. Moreover, restrictions remain

on foreign ownership of Norwegian industry, including financial institutions. However, the EEA accord requires Norway to put in place new foreign investment legislation granting national treatment to EEA member states by January 1, 1995 at the latest. Policies vis-a-vis countries outside the EEA will likely continue to be governed by reciprocity and by bilateral or multilateral agreement.

On budgetary matters, the government's dependence on petroleum revenue has increased substantially over the past decade. On the budget's 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 1993. The budget deficit is expected to narrow through 1994 and 1995 because of the impact of economic growth and spending restraint.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Several specialized state banks (e.g., the state agriculture and fisheries banks) provide subsidized loans to industry. Accelerated depreciation allowances and subsidized power are also available to industry.

The Government of Norway controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank overnight lending rate. Since the government strives to maintain a stable exchange rate, its ability to use the money supply as an independent policy instrument is weakened.

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 weakened over 10 percent vis-a-vis the U.S. dollar. Norway plans to return to a "fixed" exchange rate regime at a future date yet to be decided.

As noted, Norway strives to maintain a stable exchange rate. Norway is not a member of the European Monetary System, but in 1990 the Norwegian krone (NOK) was pegged to the European Currency Unit (ECU). Prior to this move, the NOK was pegged to a trade-weighted basket of currencies in which the weight of the U.S. dollar accounted for 11 percent. The ECU peg broke the direct link between the NOK 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 U.S. 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, although some structural reforms have been implemented in the past five years. Quantitative restrictions on credit flows 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. Further reform occurred when Norway accepted the EU's banking directives as part of its membership in the EEA. The Norwegian banking industry continues to struggle with bad loan portfolios and overstaffing, although they have returned to profitability in 1994.

Over the past five years, limited income tax reform has lowered personal income tax rates but broadened the tax base. Although modest progress has been made in reducing subsidies to Norwegian industry, Norway's farm sector remains the most heavily subsidized in the OECD. Norwegian subsidies and nontariff barriers (e.g., quotas; the Norwegian alcohol and grain monopolies) adversely affect U.S. farm exports.

Norway has taken some steps to deregulate the service sector. However, large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry. Looking ahead, the GON remains committed to an ambitious structural reform program which may gradually improve U.S. market access, but progress will likely 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 1993, the government's gross external debt (foreign liabilities) stood at about $10 billion, but its external debt will likely fall significantly through 1994 and 1995 because of reduced government budget deficits. Nor-

way's total net foreign debt (foreign liabilities less foreign assets), which was $6.5 billion in June 1994, is expected to evaporate in the 1994–96 period because of continuing balance of payments surpluses and falling government budget 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 NOK, 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. With Norway's approval of the Uruguay Round trade agreement, these agricultural restrictions will be tarrified and gradually reduced. Due to the substantial GON ownership of major Norwegian companies and the GON organization of business groups, American companies that have a Norwegian subsidiary or agent/distributor are able to operate in this market much more effectively.

The U.S. has in the past won two GATT panel determinations showing that Norway had acted in a manner inconsistent with its GATT obligations in the area of public procurement when it discriminated against U.S. companies in the procurement of electronic toll ring systems around Oslo and Trondheim. On November 27, 1992, Norway adopted new public procurement legislation which made rules more transparent. Nonetheless, the directives governing the so-called excluded sectors (e.g., energy; transportation and communication) raise competition issues. On July 1, 1994, Norway adopted new regulations for public procurement of services in order to comply with the EEA accord. According to these regulations, all services procurements exceeding NOK 1.6 million (USD 235,000) are now subject to international bidding and the granting of contracts is to be based on nondiscriminatory criteria.

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 GON purchases.

The Government of Norway is in the process of liberalizing its telecommunications industry, although the country is already relatively open to purchasing U.S. telecommunications equipment and services. GON control of this field, however, is still maintained by majority Norwegian ownership as noted above.

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. U.S. financial firms can establish subsidiaries in Norway, but cannot establish branches.

Norway maintains reservations to the OECD Code of Liberalization of Capital Movements with regard to inward direct investment. Foreign ownership in Norwegian corporations remains restricted, and proposed acquisitions are reviewed on a case-by-case basis. 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 Norwegian intellectual property (IPR) practices on U.S. trade is negligible. Norway is a signatory of the main IPR accords, including the Bern and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain of the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,136
Total Manufacturing		584
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	10	
Electric & Electronic Equipment	−2	
Transportation Equipment	0	
Other Manufacturing	53	
Wholesale Trade		200
Banking		85
Finance/Insurance/Real Estate		141
Services		29
Other Industries		179
TOTAL ALL INDUSTRIES		4,353

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

POLAND

Key Economic Indicators

[Millions of U.S. dollars]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1990 prices)	56,305	58,474	61,105
Real GDP Growth (pct.)	2.6	3.8	5.1
GDP (at current prices)	84,323	85,759	88,559
GDP By Sector: (pct.)[3]			
Agriculture	6.8	7.0	6.5
Energy/Water	N/A	N/A	N/A

Key Economic Indicators—Continued

[Millions of U.S. dollars]

	1992	1993	1994
Manufacturing	38.0	32.9	37.6
Construction	8.6	7.0	10
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/Education	N/A	N/A	N/A
Net Exports of Goods & Services	N/A	N/A	N/A
Real Per Capita GDP (1990 base)	1,468	1,520	1,585
Labor Force (000s)	17,329	17,321	17,320
Unemployment Rate (pct.)[1]	13.6	15.7/16.4	16.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	56.5	37.0	34.0
Base Interest Rate	38	35	31
Personal Saving Rate	22.4	20.7	N/A
Wholesale Inflation	31.5	35.9	21.9
Consumer Price Index	44.3	37.6	27.0
Exchange Rate (PZL/USD)			
Official	28.8	33.1	30.1
Parallel	27.2	31.8	28.8
Balance of Payments and Trade: (USD millions)			
Total Exports (FOB)	13,187	13,471	14,280
Exports to U.S.	374.4	410.7	650
Total Imports (CIF)	15,913	15,761	16,126
Imports from U.S.	636.6	974.5	960
Aid from U.S.	179	96	75
Aid from Other Countries	270	370	330
External Public Debt	47,044	47,246	41,000
Debt Service Payments (paid)	2,393	2,509	2,000
Gold and Foreign Exch. Reserves (end of year/USD billions)	4.20	4.28	[2]6.07
Trade Balance	−2,726	−2,290	−1,846
Trade Balance with U.S.	−262.2	−563.8	−310.0

N/A—Not available.
[1] Basis of calculation changed in December 1993.
[2] End of August 1994.
[3] 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:

	1992	1993	1994
Industry	39.6	32.9	37.6
Agriculture	7.3	7.0	6.3
Construction	11.2	11.3	10.0
Transportation/Communications	3.5	3.5	N/A
Trade	15.0	15.0	N/A

1. General Policy Framework

In 1994 the Polish economy continued its strong recovery from recession. Most of the trends seen in recent years continued. Statistically, industrial output was the fastest-growing sector of GDP, pulling along the rest of the economy (most economists believe growth of the services sector was also strong, but this is not adequately measured by Polish economic statistics). Agriculture remained handicapped by its structural problems and its output was depressed by drought for the second time in three years. Inflation remained high, but once again was lower than in the previous year. One important change was that the trade deficit was substantially less than in the last two years, largely because of strong growth of exports, particularly to the former Soviet Union.

After a year of government by the post-communist coalition which came to power after the 1993 elections, the main outlines of economic policy remain unchanged. Despite many pressures from its supporters for increased spending, the government has held the line on deficit spending. However, progress on privatization and other

structural reforms has been slow and uncertain. A number of sectors highly attractive to foreign investors have so far been held off the market, including telecommunications and the tobacco industry.

Monetary policy remains in the hands of the National Bank of Poland (NBP), which continues to focus on control of monetary aggregates to maintain economic stability and reduce inflation. The main challenge the NBP faced in 1994 was to restrain money-supply growth caused by the rapid build-up of foreign exchange reserves.

Poland's main foreign economic policy goal remains membership in the European Union. Together with Hungary, Poland filed an application for membership in the EU in April, 1994. Poland's association agreement with the EU, signed in 1991, was finally ratified by the EU and came into force in 1994, although this was largely symbolic, since the trade provisions had been provisionally applied since 1992. Relations with the EU warmed considerably, but remained strained by the EU's reluctance to speed integration of Poland or to open some of its most protected markets to Polish products. The Polish government continued to seek an end to anti-dumping actions by the EU, as well as improved market access for Polish food products, coal, steel, and textiles. Poland's imposition of a variable levy on a number of agricultural products has been hotly protested by the EU, although the levy seems to have had minimal impact on trade. It is uncertain whether this is because, as the Polish Ministry of Agriculture claims, it covered very little trade, or because the mechanism was designed in a way that made it highly vulnerable to fraud, or if the bulk of covered imports were always for processing and re-export, and subject to drawback of the levy.

Poland completed negotiation of a Uruguay Round tariff schedule and signed the Marrakesh Agreement in April, 1994. However, the United States and several other trading partners used the related process of Poland's re-accession to the GATT to continue negotiations seeking further concessions on a few items. The Polish government has indicated it will not seek ratification of the Marrakesh Agreement until GATT re-accession is completed, changing Poland's status from a non-market to market economy, and its schedule of concessions from quantitative import quotas to a bound tariff schedule.

A major component of Poland's economic recovery has been the sale of goods to non-residents visiting Poland. Estimates of this trade range as high as over $4 billion a year (about five percent of GDP). Because of the relatively low price of gasoline in Poland (about $1.75/gallon, versus $3.50/gallon in Germany), there is essentially no cost for Germans living up to 300 kilometers from Poland to come shopping in Poland. For the last three years, Germans have come to Poland by the millions to buy food, clothing, and gasoline. In 1994, it became increasingly evident that Russians were also engaging in this trade, although they were often importing as well as exporting, and while the Germans came looking for bargains, the Russians often were looking for imported luxury goods, such as designer fashions and household appliances. Receipts from this trade, recorded in the Polish balance of payments as short-term capital flows, are the largest source of the increases in Poland's foreign exchange reserves seen since mid-1993.

2. Exchange Rate Policies

The zloty has been internally convertible for all current transactions since January, 1990. This includes full repatriation of profits on foreign investments. Since October, 1991 the NBP has managed the exchange rate through a crawling peg mechanism. This devalues the zloty by small daily increments (currently totalling 1.5 percent per month) to offset domestic inflation and keep Polish exports competitive. Exporters have long felt that the rate of devaluation was too slow, although their pressures for faster devaluation have been weaker this year than in the preceding two years. The exchange rate is set against a basket of reserve currencies, currently the dollar (45 percent), the D-mark (35 percent), sterling (10 percent), and the French and Swiss francs (five percent each). Zloty rates against individual currencies fluctuate in accordance with changes in cross rates within the basket.

Capital transactions remain controlled. A license from the NBP is required for Poles to receive foreign credits, except for credits up to $1 million to be used to purchase goods or services abroad.

3. Structural Policies

Prices: Most subsidies and controls on the prices of consumer goods have been eliminated. Subsidies remain on a few items, including pesticides and fertilizers. Prices for fuel, public transportation, and rents for publicly owned housing (the bulk of the housing stock) are set administratively. Housing rents are set well below the cost of maintaining the buildings. There is an anti-monopoly office, responsible for

policing the competitive practices of Polish enterprises and keeping them from exploiting their monopoly positions on the domestic market.

Taxes: Although many administrative problems remain, Poland has been highly successful in introducing a modern tax system. The largest source of government revenue is the value-added tax introduced in 1993, and the second-largest is the personal income tax introduced in 1992. Customs duties remain a significant source of revenue, contributing about nine percent.

Regulatory Policies: Any person or firm registered as a business may engage in foreign trade. State-owned trading companies compete with private traders. Many of the state trading companies have been privatized, and one, Elektrim, is Poland's largest private company.

Few restrictions are placed on foreign trade, except on items in strategic areas. Import licenses are required only for the import of radioactive materials, munitions and military goods, internationally-controlled strategic items, fuel, cigarettes, and liquor. Imports of some high-proof spirits, cars over ten years old, and commercial vehicles and farm machinery over three years old are banned.

Export licenses are required for products in the following areas:

—petroleum products: fuels for engines other than aircraft; fuel for self-ignition engines; fuel oil;

—metals: non-ferrous scrap; lead, aluminum;

—soil products: nitrogenous fertilizers; peat and peat products; phosphatic fertilizers; potassic fertilizers;

—plastics: polyethylene; polypropelene; copolymer ethylene; propylene;

—polyvinyl chloride;

—synthetic rubber and synthetic fiber;

—chipboards; wood cellulose; waste paper;

—preserved and half-tanned hides;

—munitions;

—internationally controlled strategic goods.

The export of live geese and goose eggs is banned. The law does not distinguish between foreign and domestic investors for purposes of trade.

4. Debt Management Policies

In 1994 Poland concluded a debt-reduction deal with its London Club group of commercial banks. This reduced its debt to foreign commercial banks from $14.4 billion to $8 billion, and stretched out repayment to 2024. Poland had previously rescheduled its debt to the Paris Club group of Western official creditors. In 1994 the Paris Club executed the second (and last) tranche of its 50 percent reduction of Poland's official debt.

5. Significant Barriers to U.S. Exports

U.S. exports have been disadvantaged by Poland's association agreement with the EU because of the tariff preferences given to the EU by the trade provisions of that agreement. However, the damage was alleviated by a package of concessions implemented by the Polish government in 1993. Additional relief is provided in Poland's Uruguay Round tariff schedule and the tariff schedule still being negotiated for Poland's GATT re-accession.

Standards of testing, labelling, and certification in some cases have presented barriers to U.S. exports. In some cases they are more rigid and specific than equivalent regulations in Western countries. Existing regulations are being revised to reflect Poland's new open trade regime and to conform to EU standards, but periodically modifications are introduced which are quirky, hard to understand, and difficult to comply with. Standards enforcement remains in need of improvement. The Ministry of Health's Central Inspectorate of Sanitation (Sanepid) inspects and tests food and cosmetic imports to ensure they meet health standards. Sanepid has been overwhelmed by the increase in food imports since 1990, and much food enters the Polish market without inspection. U.S. firms have not encountered difficulties getting approval to sell pharmaceuticals in Poland, providing the products have been approved for sale in Western countries.

Service Barriers: Foreign banks are permitted to establish subsidiaries in Poland, either wholly-owned or in partnership with Polish investors. Out of a feeling that there are already too many small banks in Poland, the NBP has sought to pressure foreign banks to buy ailing Polish banks instead of opening new subsidiaries. While the law provides for foreign banks opening branches in Poland, the NBP dislikes the regulatory complications of this form of organization and is unlikely to license branches in the near future.

Foreign insurance firms are able to enter the Polish market. Foreign companies are prominent in the travel and tourism industry, but entry is regulated by the Ministry of Industry and Trade.

Investment Barriers: The present law on foreign investment aims at creating a level playing field for foreign investors, and eliminated most of the investment incentives previously granted. Requirements for incorporating foreign-owned firms are now the same as for Polish-owned firms. Foreigners are limited to investing via corporations, not partnerships or sole proprietorships.

One hundred percent foreign ownership is permitted. No registration of an investment with the government is required, nor is any screening applied, except in the following cases:

—Real Estate: Foreign acquisition of real estate, by purchase or long-term lease, or foreign acquisition of 49 percent or more of a Polish enterprise owning real estate, requires a permit from the Minister of the Interior. Foreigners may lease forests and agricultural land for up to 99 years, but may not buy it outright. Reports to parliament show that several thousand permits are applied for each year. While a majority are issued, a substantial number are refused.

—Strategic Industries: A permit from the Minister of Privatization is required for foreign investment in:
—operation of sea- or airports;
—real estate agency transactions;
—defense industries;
—wholesale trade in consumer goods;
—performance of legal services.

A permit can only be denied when a proposed investment would threaten the economic interests of the state or state security.

Present law provides only limited incentives for foreign investment. An investor may apply to the Ministry of Finance for a tax holiday if his equity exceeds ECU 2 million and one of the following conditions is met:
—The company will operate in regions of high structural unemployment;
—The company will introduce new technologies;
—The company will export at least 20 percent of its output.

However, the Ministry of Finance takes the position that even if these conditions are met, granting of a tax holiday is at its discretion.

In addition to the tax holidays provided in the foreign investment law, the Polish government has used provisions of the customs law providing duty free entry for parts and components of goods to be assembled in Poland as an incentive for foreign investors. This has been especially significant in the automobile industry, where the government has sought partners for its many financially ailing car and truck factories. Beneficiaries of tariff rate quotas to import automobile, truck, or bus parts and components have included Fiat, Opel, VW-Skoda, Peugeot, and Volvo.

Poland is eligible for political risk investment insurance and credit guarantees from OPIC, and for EXIM Bank export credits and guarantees.

Government Procurement Practices: Improvement of government procurement practices is an important issue for the Polish government. It is preparing a new law governing procurement. Large procurements are already usually done by some sort of tender process, but in the absence of a law or regulations there are often questions about the procedures used. Poland has not signed the GATT Code on Government Procurement because of inconsistencies in its legislation. It may sign the code after adoption of the new legislation.

Customs Procedures: The Polish Customs Service has been a leading victim of economic reform. The rapid growth of imports over the last four years, as well as the proliferation of traders, has strained Customs' capabilities. Customs' facilities and personnel are overloaded by the volume of cargo they must process. The competence of personnel is not high. Communications between headquarters and field offices is poor, leading to inconsistent application of the rules. The greatest problems have occurred at road crossings on the German border, where officials are overwhelmed by the volume of traffic entering Poland, much of it in transit to the former Soviet Union. Poland signed the GATT Customs Valuation Code in 1989. While it has never been ratified, the substance has been incorporated into Polish customs law.

6. Export Subsidies Policies

Poland has signed the GATT Subsidies Code, but never ratified it. Present plans are to ratify the new code embodied in the Uruguay Round. Poland has eliminated its past practices of tax incentives for exporters, but it still offers some tax holidays to foreign investors who plan to export. A new law on restructuring the sugar refining industry has the potential for creating export subsidies for sugar, financed out of high domestic prices.

7. Protection of U.S. Intellectual Property

Intellectual property is an area of concern, particularly in copyright matters. However, the Polish government has made major strides in improving protection. The enactment of a new copyright law in February 1994 gave it a complete set of modern intellectual property laws. Full adherence to the 1971 Paris Act of the Berne Convention in July, 1994 was also an important step in guaranteeing protection to foreign authors. There is still a question whether the new copyright law protects the rights of foreign producers and performers of sound recordings. Ultimately, entry into force of the Uruguay Round TRIPS agreement will guarantee that protection, but in the meantime there is a question, which the Polish government could remove by reversing its position and signing the Geneva Convention on Phonograms.

8. Worker Rights

a. *The Right of Association.*—The Polish government has ratified Convention 87 of the International Labor Organization (ILO). Laws concerning employment, trade unions and collective bargaining were revised in early 1991. Currently, all workers, including the police and frontier guards, have the legal right to establish and join trade unions of their own choosing, the right to join labor federations and confederations, and the right to affiliate with international labor organizations. Independent labor leaders reported that these rights were largely observed in practice.

Regarding the right to strike, the Trade Union Act of 1991 is less restrictive than the 1982 version passed soon after imposition of martial law, but still prescribes a lengthy process before a strike can be launched. When strictly observed, the law provides several opportunities for employers to challenge a pending strike, including the threat of legal action. An employer must start negotiations the moment a dispute begins. In August 1994, the government announced that this process would be shortened.

Under existing law, negotiations end with either an agreement or a protocol describing the differences between the parties. If negotiations fail, a mandatory mediation process ensues; the mediator is appointed jointly by the disputing parties or, absent agreement between them, the Ministry of Labor and Social Policy. If mediation fails, the trade union may launch a warning strike for a period of up to 2 hours or seek arbitration of the dispute. Both employers and employees have frequently questioned the impartiality 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, in units of the police, firefighters, military forces, prison services and frontier guards). If the strike is organized in accordance with the law, workers retain their right to social insurance benefits but not pay. If a strike is "organized contrary to the provisions of the law," workers may lose social benefits and organizers are liable for damages and may face civil charges and fines. Laws prohibiting retribution against strikers are not consistently enforced; the fines imposed as punishment are so minimal that employers can easily afford to pay them.

In September 1994, the government announced that legislation proposing important changes in existing laws governing trade unions, employers and the resolution of labor disputes would be sent to the Sejm before the end of the year. Senior officials proposed re-defining a "legal" strike to prohibit "occupation," hunger and "political" strikes as well as raising the threshold necessary for a successful strike vote to a minimum of 50 percent of all enterprise workers. The government also announced its intention to raise the number of workers necessary to form a trade union.

These and other proposals grew out of the government's "strategy for Poland," announced in June, 1994, which included a comprehensive attempt to adapt the many existing, and outdated, laws governing labor activity to Poland's emerging market economy. In August, the government sent a revised labor code to the Sejm under the "strategy" framework, in effect abandoning the landmark February 1993 "State Enterprise Pact," which had set forth a detailed framework for dealing with labor-related issues and to which the unions, employers and government had agreed. In the interim, legal ambiguities continued, leading to some labor tensions.

b. *The Right to Organize and Bargain Collectively.*—Poland has ratified ILO Convention 98 on the right to organize and bargain collectively. The 1991 law on trade unions created 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, provided by the employer. In August, the government announced its intent to reduce some employer-provided, union-related costs in enterprises which have a large number of unions (some have as many as 50).

Notable weaknesses included weak sanctions for anti-union discriminiation. Polish law also lacked specific provisions to ensure that a union has continued rights of

representation when a state firm undergoes privatization, commercialization, bankruptcy, or sale. Labor leaders claimed that this ambiguity led to underrepresentation of unions in the large and growing private sector. There were also a number of confirmed cases where Solidarity activists were dismissed for labor activity permitted under Polish law, including organizing strikes.

Unions, management and workers' councils currently set wages in ad hoc negotiations at the enterprise level. Collective bargaining as a system of industrial relations is expected to encompass an ever larger percentage of the workforce. By fall 1994, both unions and employers were preparing themselves for such a relationship. During 1994, the government repeatedly stated its intention not to be drawn into labor disputes, as has been the tendency historically.

The government continued its ceiling on wages in state and private enterprises (except May-August when the Sejm and the President disputed the law) by means of a penalty tax, the so-called "neo-popiwek." In an attempt to link wages to increased productivity and reduce inflationary pressures in the state sector, the government charged a penalty to any firm (which does not produce for export) that increased its average wage in excess of a government-set "coefficient." Enforcement of the neo-popiwek effectively discouraged enterprise or sectoral-level collective bargaining on wages. Both Solidarity and OPZZ challenged the tax in the Polish constitutional court.

Current government policy aims to liberalize investment procedures for both domestic and foreign firms rather than promote special incentive programs. Special duty-free zones exist in or have been contemplated for some 5–20 locations throughout Poland but, with the exception of one zone in Poznan and one in Mielec (in south-eastern Poland), have not attracted much attention. Thus, traditional export processing zones that relax legal guarantees do not, at this time, comprise a threat to workers' rights to organize. However, collective bargaining either does not exist there or is in its early stages of development.

c. *Prohibition of Forced or Compulsory Labor.*—The Polish government has ratified Conventions 9 and 105 of the ILO on forced labor. Compulsory labor does not exist in Poland, although it is not prohibited by law. Drafts of the new constitution proposed by some political parties contained explicit prohibitions, but a new constitution is not expected to be approved until 1995.

d. *Minimum Age for Employment of Children.*—Poland has ratified ILO Convention 138 on child labor. The labor code forbids employment of persons under the age of 14. Persons aged 14–18 may be employed only if they have completed basic schooling and if the proposed employment constitutes vocational training and is not harmful. The age floor rises to 18 if a particular job might pose a health danger. The government enforces legal protection of minors, but its inability to monitor the growing private sector, which now accounts for some 60 percent of all Polish employment, leaves officials less certain the problem does not exist.

e. *Acceptable Conditions of Work.*—A national minimum wage is negotiated every 3 months on a tripartite basis by the government, employers and the trade unions. Minimum wages for state-owned enterprises were roughly $90 (ZL 2,050,000) per month at the October 1 exchange rate, which was insufficient to provide a worker and family a decent living. Minimum wage has the force of law, but a significant number of foreign guest workers received less than the minimum wage, especially in the construction amd agricultural sectors. The average gross monthly wage rose in 1994 to roughly $220. Despite several recent annual increases in GNP, however, real wages declined.

The Polish legal code defines minimum conditions for the protection of workers' health and safety. Enforcement is a growing problem because the state labor inspectorate is unable to monitor the increasing portion of Polish economic activity which is in private hands and where a growing percentage of accidents take place. In addition, there is a lack of clarity concerning which government or legislative body is responsible for enforcing the law. In 1993, 655 work-related deaths were reported, representing a slight upward trend over 1992. The government itself has noted that work conditions in Poland are poor and sanctions are minimal. Standards for exposure to chemicals, dust, and noise are routinely exceeded.

f. *Workers Rights in Sectors of U.S. Investment.*—As with the rest of the Polish private sector, it is impossible to comment authoritatively on workers' rights because of inadequate monitoring. Although there were labor-management disputes in firms with U.S. investment in 1994, there was no consistent pattern and none were protracted or serious.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		232
Food & Kindred Products	95	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(2)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		−22
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		2
Other Industries		(1)
TOTAL ALL INDUSTRIES		256

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

PORTUGAL

Key Economic Indicators

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

	1992	1993 [1]	1994 [2]
Income, Production and Employment:			
Real GDP (1989 prices) [3]	65,178	54,173	54,030
Real GDP Growth (pct.)	1.1	−1.0	1.1
GDP (at current prices)	96,129	85,107	88,494
By Sector: (pct.)			
Agriculture	5,190	4,340	4,160
Energy/Water	3,749	3,404	3,717
Manufacturing	25,089	21,104	21,687
Construction	5,191	4,595	4,868
Services (net)	56,910	51,664	54,062
Net Exports of Goods, Services and Transfers [4]	−20	693	−500
Real Per Capita GDP (USD)	6,974	5,794	5,779
Labor Force (000s)	4,528	4,504	4,541
Unemployment Rate (pct.)	4.1	5.5	6.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.1	7.6	5.0
Base Interest Rate [5]	16.0	11.0	9.0
Personal Savings Rate [6]	10.9	8.1	8.8
Retail Inflation [7]	8.9	6.5	5.3
Consumer Price Index [7]	108.9	116.0	122.1
Exchange Rate (USD/PTE)	135.0	160.8	163.0
Balance of Payments and Trade:			
Merchandise Exports (FOB) [4]	18,275	16,699	18,000
Exports to U.S.	590	679	750
Merchandise Imports (CIF) [4]	27,675	23,663	24,500
Imports from U.S.	916	745	800
Aid from Other Countries	4,129	3,851	3,712
External Public Debt	19,098	19,721	19,500

Key Economic Indicators—Continued

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

	1992	1993[1]	1994[2]
Debt Service Payments	4,920	5,001	4,500
Gold and Foreign Exch. Reserves	24,335	21,005	21,000
Trade Balance	−9,400	−6,964	−6,500
Trade Balance with U.S.	−326	−66	−50

[1] Estimated.
[2] Projected.
[3] GDP at market prices.
[4] As of 1/1/93 on a cash basis.
[5] 91-day Treasury Bills—primary market.
[6] On new national accounts basis (1986 base).
[7] New Series: 1991 = 100.

1. General Policy Framework

The government's economic goal is to modernize Portuguese markets, industry, infrastructure, and workforce in order to match the productivity and income levels of its more advanced European Union (EU) partners. Portuguese per capita GDP (on a purchasing power parity basis) reached 64.5 percent of the EU average by the end of 1993.

The government's medium-term objective is to be in the first tier of EU countries eligible to join the Economic and Monetary Union (EMU) as early as 1997. To be eligible, Portugal must reduce inflation, budget deficits, public debt, and interest rates in line with convergence criteria set by the European Commission. The current policy mix to meet these criteria includes modestly stricter fiscal policy; continued tight monetary policy in defense of a broadly stable exchange rate; conservative incomes policies to support the disinflation process; and privatization and trade policies to increase the efficiency and productivity of the economy.

An unexpectedly severe recession, significant fiscal slippage, and turmoil in the EU exchange rate mechanism undermined Portugal's EU convergence strategy in 1993. Faced with higher unemployment, a markedly weaker government fiscal position, and dimmer growth prospects than originally anticipated, financial markets repeatedly tested the government's commitment to disinflation in 1994. In response, the government consistently reaffirmed its commitment to exchange rate stability. As a result, inflation is much reduced, interest rates have come down, and the economy appears headed for recovery of 1.1 percent in 1994 and 3 percent in 1995.

Prime Minister Cavaco Silva and the Social Democratic Party (PSD) face parliamentary elections in 1995. Some observers believe the Prime Minister remains committed to the discipline of EU convergence despite domestic political pressures to boost the economy in an election year. They point out that the government has thus far resisted union demands for a 5 percent minimum wage increase as part of a one-year social pact and is letting financial markets set a cautious pace for interest rate reductions even at the cost of slower growth and higher unemployment in the short-term. In addition, they say the government is aware that the European Commission is linking disbursement of politically-important EU cohesion funds to demonstrated progress on meeting EU convergence criteria. Other observers believe electoral considerations are already evident. They point out that government is not planning to cut the FY–1995 budget deficit as much as might be expected and is conceding to pressure groups such as local bankers and small merchants. Furthermore, they say accelerated declines in interest rates and a generous off-cycle salary boost cannot be counted out as electoral concerns build.

2. Exchange Rate Policy

Portugal participates with Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands, and Spain in the exchange rate and intervention mechanism (ERM) of the European Monetary system (EMS). In accordance with this agreement, Portugal maintains the spot exchange rates between the Portuguese escudo and the currencies of the other participants within margins of 15 percent above or below the cross rates based on the central rates expressed in European Currency Units (ECUs). The wider 15 percent band replaced a 6 percent band in August 1993.

Portuguese authorities continue to maintain a stable exchange rate to anchor wage and price expectations. The authorities have thus far not used the wider 15 percent margins to ease policy, but rather have reacted to bouts of exchange rate pressure by raising interest rates and intervening in the market. In particular, since August 1993, the authorities have kept the escudo well within the old 6 percent

band against the deutsche mark, at approximately PTE 102/DM. The government believes the general upward trend in Portugal's export market shares in recent years indicates the exchange rate continues to be consistent with maintaining international competitiveness.

3. Structural Policies

The Portuguese Government continues to liberalize the economy to stimulate growth and convergence with EU standards. EU assistance programs designed to facilitate structural adjustment in Portuguese agriculture, industry, commerce, and regional development will approach 4 percent of GDP in 1994. EU transfers are expected to increase by 8 percent per year during 1994 to 1999. Since the Portuguese government must provide significant counterpart funding of EU transfers, the structure of government spending is expected to shift markedly away from current spending to make room for rising public investment.

In the labor market, the sharp slowdown in nominal wage settlements has supported the disinflation effort. More broadly, the government is investing in worker training programs to enhance the quality and mobility of the workforce and improve its productivity.

The government's privatization program slowed in 1993 after advancing rapidly in 1992. The government took in revenues of only 400 million dollars in nine privatizations in 1993. The pace picked up in 1994, however, with six privatizations yielding over 700 million dollars in revenues through August. By year-end 1994, "denationalization" of the banking and insurance sector will be virtually complete, and major non-financial state-owned enterprises (including energy and telecommunications) will be partially or wholly privatized. The government normally sets maximum foreign ownership percentages on a case-by-case basis and may retain a substantial voice in management of selected firms.

4. Debt Management Policies

Total external debt stood at $19.7 billion at the end of 1993, or equal to about 23 percent of GDP. As recently as 1989, external debt represented almost 40 percent of GDP. Portugal's debt is well structured and can be comfortably serviced. Large international reserves, and the ability to tap international financial markets on favorable terms, will enable Portugal to manage balance of payments pressures and maintain financial stability as the economy recovers and imports for investment revive. Portugal is an aid donor nation and closely follows development issues in its former African colonies. Portugal's aid as a proportion of GDP exceeds the average for the OECD Development Assistance Committee.

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 100 percent foreign-owned subsidiaries. The package of incentives can range from 25 to 35 percent of the total investment. However, the government restricts or excludes private and foreign participation 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. Portugal has already adopted most EU directives into Portuguese law. The Portuguese Telecommunications Institute sets standards for telecommunication products, and the National Laboratory Civil Engineering sets Construction Standards.

Low voltage electrical and electronic equipment must meet the requirements of EC directive 73/23/EEC. Imported textiles, apparel, and leather goods must carry a label indicating country of origin and composition by percentage of the fabric.

Government procurement legislation makes no distinction as to country of origin. In July 1993, the GATT accepted Portugal's list of entities covered by the Government Procurement Code.

Quantitative import restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines for certain countries. Textiles are covered by the Multi-Fiber Arrangement (MFA) and protected by EU-wide quotas that will be phased out under the Uruguay Round over 10 years.

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, may be considered an indirect subsidy.

7. Protection of U.S. Intellectual Property

On October 20, 1994, Decree Law 252/94, which transposes the EU software law, entered into effect in Portugal. This law explicitly offers copyright protection for computer programs and stipulates stiff fines for software piracy. The government has undertaken great efforts to improve enforcement, but small-scale copying occurs. Business and software organizations have taken a proactive role in the fight against piracy. 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 has become more 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 industry. 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. The CGTP is in the process of joining the European Trade Union Congress (ETUC); ratification of its membership is now expected to occur in 1995. 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. Under a modification of the strike law, a "minimal level of service" must be provided during certain strikes, including in the public health, energy, and transportation sectors.

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 9 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. Despite improvements in the number of inspections carried out by the General Labor Inspectorate, however, the government does not allocate resources sufficient to fully address the problem, which remains unresolved.

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. Application of Worker Rights in Various Sectors.—Legally, worker rights apply equally to all sectors of the economy. As noted above, child labor and worker safety are problems in the textile and construction sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		340
Food & Kindred Products	160	
Chemicals and Allied Products	93	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	3	
Electric & Electronic Equipment	46	
Transportation Equipment	(1)	
Other Manufacturing	43	
Wholesale Trade		266
Banking		195
Finance/Insurance/Real Estate		127
Services		145
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,162

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

ROMANIA

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (billion 1992 lei)	5,982.3	6,060.0	6,181.2
Real GDP Growth (pct.)	−13.8	1.0	2.0
Nominal GDP (billion current lei)	5,982.3	19,737.2	50,000.0
Nominal GDP	18,407.0	25,901.8	30,300.0
By Sector:			
Industry	8,227.3	9,505.9	12,784.0
Agriculture/Forestry	3,477.5	5,568.7	7,990.0
Construction	803.0	2,590.1	1,053.9
Transport/Telecommunication	1,176.9	1,295.1	1,663.4
Trade/Tourism	2,430.7	2,745.5	3,533.2
Other Services	2,291.6	4,196.5	3,275.5
Net Exports of Goods & Services	−1,588	−1,239	−300
Real GDP Per Capita (USD)	807	1,136	1,328
Labor Force (millions)	11.4	11.3	11.3
Unemployment (pct.)	5.4	9.3	10.2
Money and Prices:			
Lending Interest Rate (pct.)	39.1	56.7	88.7
Rate on Deposits (pct.)	29.7	34.3	72.5
Retail Inflation	210.9	256.1	70.0
Official Exchange Rate (lei/USD) (annual average)	325	762	1,652
Balance of Payments and Trade:			
Total Merchandise Exports	4,363	4,892	5,900
Exports to U.S.	84	39	144

Key Economic Indicators—Continued

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

	1992	1993	1994
Total Merchandise Imports	6,260	6,521	6,600
Imports from U.S.	223	202	220
Trade Balance	−1,846	−1,631	−700
Trade Balance with U.S.	−139	−163	−76
Aid from U.S.	20.1	34.7	44.1
Aid from Other Countries	156	180	180
Debt Service Payments	185.9	369.2	958.1
Gold and FOREX Reserves Net (1)	44.0	315.0	951.5

[1] Total banking system net foreign assets; end of period.

1. General Policy Framework

With a population of 22.8 Million, a highly educated labor force, and substantial exploitable natural wealth, Romania offers a potentially attractive market for U.S. trade and investment. For the next several years, however, Romania's economic performance—and thus its demand for imports—will continue to be constrained by the slow pace of privatization and the decline of its traditional heavy industries.

In the years immediately following the December 1989 revolution, the Romanian economy was buffeted by the shock of adjustment to international price levels (especially for energy and raw materials), the elimination of the former central planning apparatus, and the collapse of its traditional COMECON markets. From 1989 to 1992, Romania's GDP contracted by 29 percent; industrial production declined 38 percent; and output in the transport and telecommunications sector fell 50 percent. Exports dropped 60 percent (from $10.5 To $4.3 billion), limiting the country's ability to pay for much-needed imports of fuel and capital goods. More than one million workers lost their jobs in the state sector and open unemployment—not seen for decades in Romania—rose to about 10 percent of the labor force. Job-holders also suffered as average monthly wages fell to around $115 per month—about one-half the pre-revolution level.

The economy bottomed out in 1993 and may have grown by up to 1.0 percent due to a 14-percent weather-related surge in agricultural output and anemic growth in industry. However, declines continued to be registered in construction activity and especially in services, where the growth of private retail and service establishments failed to offset the continuing decline in some consumer services and in goods and passenger transport volume.

Preliminary estimates for 1994 indicate that the economy may have finally turned the corner, to achieve unambiguous growth in most sectors. The consensus is that the nation's GDP will have grown by about 2.0 percent in 1994 due to an anticipated 5-percent jump in agricultural production, the small private sector's growth, a revival of building activity, and a mild export-led recovery in industry. However, the pace of growth is unlikely to be sufficient to prevent a further rise in unemployment, to perhaps 11 percent, by the end of 1994.

Although Romania is committed to the development of a market economy, state ownership of most means of production continues five years after the overthrow of communism. Nevertheless, steady—if slow—progress toward privatization is being made. Ninety-six thousand square kilometers of arable land have been returned to private farmers (benefitting over 5 million individuals in the process), nearly 400,000 new private companies have been created, and some 850 state enterprises have been privatized through management and employee buy-outs. In September, 1994, the government submitted its long-awaited mass privatization legislation to the parliament, proposing the privatization of an additional 3,000 state-owned enterprises via a modified voucher system. This law cleared the Senate in December 1994. If implemented in its entirety, the bill would transfer an estimated 10–12 percent of Romania's GDP to private hands by the end of 1995.

Progress has been much more visible in the non-state sector, which now makes up an estimated 35 percent of Romania's economy. In late 1994, private firms and individuals accounted for about five percent of industrial output, 25 percent of construction activity, 40 percent of services turnover, and 80 percent of farm production. More significantly, the private sector now employs an estimated 50 percent of Romania's occupied labor force (5.0 million out of 10.1 million) including 3.0 million farmers, 1.5 million owners and employees of private firms, and 0.5 million self-employed individuals.

The reintegration of Romania into world markets is a central feature of the government's economic policy. Romania signed an association agreement with the European Union in December 1992. The European Union is by far Romania's most important trading partner. In 1993, it took 39.3 percent (or $1.924 billion) of Romania's total FOB merchandise exports of $4.892 billion, and provided 42 percent ($2.741 billion) of its total CIF merchandise imports of $6.525 billion. In contrast, the United States accounted for only 1.3 percent ($61.9 million) of Romania's exports and 4.3 percent ($282.1 million) of its imports in 1993.

Despite this difference in relative trade flows, Romania places special emphasis on improving bilateral economic relations with the United States. As a result of the restoration of most-favored-nation tariff status with the United States in November 1993; U.S. ratification of a bilateral investment treaty in December 1993; and the return to Romania of the U.S. Export-Import Bank and the U.S. Overseas Private Investment Corporation; prospects for expanded bilateral trade and investment are much improved. For example, in the first nine months of 1994, Romanian exports to the United States increased 182 percent, while imports from the United States rose 12 percent.

Since late 1993, the National Bank of Romania has implemented a tough IMF-backed macroeconomic stabilization package that has succeeded in cutting annual inflation from around 300 percent in 1993 to less than 70 percent in 1994, restored real positive interest rates in the financial sector, increased domestic bank deposits, and stabilized the leu. A parallel Government of Romania austerity program is holding the central government fiscal deficit to about 3.0 percent of GDP. In the Fall of 1994, the Romanian government implemented painful budget-driven personnel reductions in the headquarters staffs of most non-defense-related ministries. For example, the Bucharest staffs of the Ministries of Agriculture and Food, Industry, Transportation, and Commerce were all reduced between 40–55 percent.

2. Exchange Rate Policy

As a part of its macroeconomic stabilization package, the National Bank of Romania liberalized the foreign exchange auction system in April 1994. The reform, which replaced the former administered rate with a market-clearing rate, substantially eliminated the gap between the official rate and that prevailing in the system of legalized exchange houses. The relative stability of the leu since that time (it has gone from lei 1650 to lei 1750/$) has generally restored public confidence in the national currency and allowed the National Bank to implement a second-stage liberalization—involving the creation of an interbank market—beginning in August 1994.

As of November 1994, six commercial banks have been authorized to freely trade the Romanian currency. However, any number of corporate customers can theoretically buy hard currency through these authorized broker/dealers. In late 1994, the interbank market appeared to be performing well without any noticeable shortage of dollars. Moreover, the spread between the leu/dollar rate of exchange on the interbank market and the exchange house rate was holding stable at around 6–8 percent.

Despite the substantial liberalization of the foreign exchange regime, the leu is not yet freely convertible. The National Bank of Romania maintains a number of restrictions aimed at preventing capital flight. Thus, the removal of more than token amounts of lei from Romania remains illegal. Romanians are prohibited from holding foreign bank accounts, though they are permitted to own U.S. dollar-denominated bank accounts in local banks. Foreign exchange restrictions, though somewhat liberalized, also remain in effect. For example, Romanian citizens are allowed to buy only $1,000 worth of hard currency per year on an unrestricted basis. For those traveling abroad, the limit is set at $5,000 per person per trip. Furthermore, commercial companies must obtain an import license prior to buying hard currency, though this appears to be less of a problem in late 1994. In September 1994, the National Bank issued a directive requiring all domestic transactions between Romanian individuals and/or legal entities to be conducted in lei.

3. Structural Policies

Economic reform has entailed creating new laws in virtually every sphere: finance, commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. Among the more recent developments are the July 1, 1993 introduction of an 18-percent value added tax; the May 24, 1994 government ordinance reforming local taxation, the August 11, 1994 passage by the parliament of a securities and exchange act; and the August 31, 1994 promulgation of a new tax ordinance on corporate profits. Despite these achievements, several gaps remain in the legal framework. Chief among these are the absence of a modern bankruptcy code, a modern copyright law which includes protection for software, legislation on

the restitution of properties nationalized during the communist era, and the previously-mentioned mass privatization bill. Draft bills on all of these subjects were before the parliament in late 1994.

Since 1989, Romania has gradually liberalized prices and eliminated most direct producer and consumer subsidies. The main areas of exception are coal production, public transportation, and household energy and heating. In food products, the principal remaining subsidies by summer 1994 were on bread and milk. However, in October 1994, the government announced its intention to reimpose "temporary" wholesale price controls on pork, chicken, eggs, cooking oil, and sugar.

The major sources of central government revenue in Romania are an 18-percent value added tax, a 38-percent tax on most corporate profits, and a salaries tax which rises to 60 percent for the portion of salary in excess of 816,000 lei per month (about $470). Together these three taxes accounted for about 83 percent of total central government revenues in the first half of 1994. Romania's generally high customs duties make up only 6 percent of total central government revenues. Gradual adjustments to the tariff schedule will be required to bring Romania into harmony with the European Union by the end of the decade. As a result, rate differentials will increasingly favor imports from the European Union.

4. Debt Management Policies

During the 1980's, former dictator Nicolae Ceausescu directed the liquidation of all foreign debt via accelerated repayments and forced exports in order to reduce foreign influence over Romania. By April 1989, Romania's debt was virtually zero and the country was a net external creditor. After December 1989, foreign borrowing was resumed, and by the end of 1994, medium and long-term external debt amounted to about $4.3 billion (and overall the country was again a net debtor). Nonetheless, in 1993, debt service payments still amounted to a mere six percent of Romania's exports of goods and services. However, debt service is now growing and in 1994 is expected to reach about 15 percent of exports of goods and services.

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 buildup of debt among state-owned enterprises (essentially soft supplier credits), it became evident that Romania would not be able to meet the IMF target for monetary growth. Another standby agreement was negotiated in May 1992, providing for assistance totaling $440 million. This program was also terminated by mutual agreement before the final tranche of assistance had been drawn.

Negotiations for a third program began in March 1993. In February 1994, the Romanian Parliament approved the draft "memorandum on economic policies" and a preliminary 1994 budget in line with the proposed program. In May 1994, the IMF approved Romania's request for a 19-month standby arrangement in the amount of SDR 131.97 million and a first drawing under an SDR 188.5 million systemic transformation facility.

5. Significant Barriers to U.S. Exports

There are no laws which directly prejudice foreign trade, investment, or business operations in Romania. Traditionally defined trade barriers are generally not a major problem, though there exist areas of exception. In mid-1994, Romania imposed a system of reference prices for imports of chicken parts (about 85 percent of which came from the United States) in order to protect its largely state-owned chicken industry. In fall 1994, Romania also sharply increased import tariffs on new and used automobiles in order to support its struggling domestic manufacturers.

The Government of Romania welcomes foreign investment and generally makes good faith efforts to assist in resolving disputes involving U.S. and Romanian firms. However, impediments to bilateral trade and investment can arise from cultural differences, the nature of the reform process, or attitudes and practices carried over from the days when Romania's economy was centrally planned.

Formal investment barriers are few in Romania. 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. Foreigners are permitted to lease land, but under the constitution are prohibited from owning land. Governmental approval of joint ventures is required but has not impeded the formation of such ventures. The Romanian Development Agency attempts to match foreign investors with Romanian partners. In 1994, the Government raised the minimum investment requirements for registering foreign investment to $10,000 from $100.

Despite the best efforts of the Government of Romania, a number of problems continue to restrict the level of foreign investment to relatively low levels. For example, gaining clear title to property remains problematical and any purchases are potentially subject to legal challenge by former owners or managers. The situation is further complicated by the absence of bankruptcy legislation and, hence, a means for pressing claims against debtors.

The large amount of red tape which accompanies many transactions and the need to deal with overlapping local bureaucracies can prove frustrating to foreign investors. Corruption is a major problem and, in certain instances, can pose an actual business risk.

The changing legal and regulatory environment has created difficulties which affect foreign participation in the Romanian economy. There are few legal specialists qualified to interpret the commercial implications of recent Romanian legal developments and there is little experience in Western methods of negotiating contracts. Once concluded, there is often no effective means of enforcing agreements.

The cost of doing business in Romania can also be unexpectedly high, particularly rents for offices and charges for telecommunications and business services. The lack of an efficient modern payments system (checking accounts do not yet exist) further complicates transactions in Romania. Payments can only be made in cash.

Corporate income is generally taxed at a rate of 38 percent. In addition, the government levies a 10 percent dividend withholding tax. The recent revision of the corporate profits tax eliminates nearly all future investment tax holidays. However, foreign companies investing over $50 million may still qualify for a seven year tax exemption. Romania has no income tax, but instead imposes a steeply progressive salary tax which rises to a 60 percent marginal tax rate on all salaries above $470 per month.

Since 1990, Romania has registered over 38,000 commercial companies with foreign capital participation. The total value of foreign investment surpassed $940 million in October 1994. The overwhelming majority of the investment is small scale. U.S. company investments range from a few hundred dollars to many millions and are increasing in value and number steadily. As of October 17, 1994, U.S. investments in Romania were worth $95.7 million, a virtual tie with the value of investments from Germany, Italy, and France.

6. Export Subsidies Policies

The Romanian government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides for the total or partial refund of import duties for goods that are processed for export or are incorporated into exported products. A September 1994 government decision permits the Romanian Export-Import Bank to engage in trade promotion activities on behalf of Romanian exporters of goods produced in Romania.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain goods and technologies. For example, the Government has, on occasion, banned the export of various commodities (especially foodstuffs) due to domestic shortages. There are also export controls of imported or indigenously produced goods of proliferation concern.

Romania is not a signatory to the GATT subsidies code or government procurement code but has indicated its eventual intention to subscribe to both codes.

7. Protection of U.S. Intellectual Property

Romania has made significant progress in the area of intellectual property protection since the end of the communist era. New patent and trademark laws have been enacted. A new revised copyright law, which will provide protection for software, is expected to be submitted to the parliament shortly.

All legislation in this field has been modeled after international standards and norms and has been reviewed by international experts. The Government of Romania has expressed its intention to have in place in 1995 a complete set of intellectual property laws consistent with European Union norms.

Nonetheless, the lack of copyright protection has caused some American firms to be reluctant to invest in Romania. Pirated copies of audio and video cassette recordings are openly marketed and inexpensive. Some are apparently produced locally, but many appear to be imported from elsewhere in the region. The U.S. Embassy in Bucharest is not aware of pirated goods being produced in Romania for export.

8. Worker Rights

a. *The Right to Association.*—Current labor legislation adopted in 1991 guarantees all workers except government employees, police, and military personnel the right to associate, to engage in collective bargaining, and to form and join labor unions without previous authorization. The right to strike is specifically guaranteed, al-

though union members have been frustrated with the courts' propensity to declare illegal the major strikes on which they have been asked to rule. Legal limitations on the right to strike exist only in certain critical industries involving the public interest, such as defense, health care, transportation, and telecommunications.

Union members have continued to criticize certain aspects of the 1991 legislation, but no consensus has been reached on how the laws should be amended. Past studies have indicated that the legislation falls short of International Labor Organization (ILO) standards in several areas, including the free election of union representatives, binding arbitration, and financial liability of strike organizers. Although the legislation is supportive of collective bargaining as an institution, the contracts that result are not enforceable in a consistent manner. This situation is caused in part by inadequacies in the law itself and by problems created by continued state ownership of most major industries. In 1994, the government and the major labor confederations moved to promote a new tripartite collective bargaining relationship among the government, labor, and private sector.

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 protected against employer retaliation. In practice, the government does not seem to exert any control or influence over labor union activities. In 1994, however, several steps were taken toward politicization of the Romanian labor movement. In July, Miron Mitrea, the Executive President of CNSLR-Fratia, Romania's largest labor confederation, was selected as the president of a dormant political party created by the trade unions. Fearing that party might merge with the ruling Party of Social Democracy, Victor Ciorbea, President of CNSLR-Fratia, announced in August that he had formed an alliance with the opposition Democratic Convention and the National Trade Union Bloc, another major confederation. In a declaration signed by the three parties, each pledged to develop joint programs but to maintain "complete independence." In October, Ciorbea set up a new labor confederation, "The Confederation of Democratic Trade Unions of Romania."

The majority of Romanian workers are members of some 18 nationwide trade union confederations and smaller independent trade unions. Virtually all unions concentrate on economic issues to protect their members' standard of living, which has continued to decline because of increases in consumer prices and uncertainty caused by the transition to a market economy.

Labor unions may freely form or join federations, and affiliate with international bodies. The Alfa Cartel and CNSLR-Fratia are affiliated with the World Confederation of Labor and the International Confederation of Free Trade Unions, respectively. Representatives of foreign and international organizations freely visit and advise Romanian trade unionists.

The Committee of Experts at the 1994 ILO Conference observed that the treatment of the Roma and Magyar minorities continued to be the subject of debate in the UN Human Rights Committee. It noted that the government, which asserted there were no discriminatory standards against the Roma, had reported that some 22 percent of Roma men and 71 percent of Roma women were unemployed. The committee noted with interest the measures taken by the Government to promote better integration of the Roma in the society and the government's establishment of the Council for National Minorities, which monitors the problems of persons belonging to those minorities. The committee urged the Government to supply information about the work of that council, and information about the programs being taken to provide education, training, and employment for the ethnic Hungarian population.

b. *The Right to Organize and Bargain Collectively.*—Current legislation permits workers to organize into unions and to bargain collectively. In January, the Locomotive Engine Drivers Federation lost an appeal in which it tried to overturn an original court decision that had declared its August 1993 strike illegal. As a result of that strike, several union leaders and strikers were summarily fired. 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.*—The constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection (MOLSP) effectively enforces this prohibition, and no instances of abuse were recorded in 1994.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 16, but children as young as 14 may work with the consent of their parents or guardians but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are obliged to assist in this regard. The MOLSP has the authority to im-

pose fines and close sections of factories to enforce compliance with the law. No violation of this policy was documented in 1994, and child labor did not appear to be a problem.

e. *Acceptable Conditions of Work.*—Most wage scales are established through collective bargaining. However, they are based on minimum wages for given economic sectors and categories of workers set by the government after negotiations with industry representatives and the labor confederations. 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 still pending in parliament. The MOLSP has established safety standards for most industries and is responsible for enforcing them. Enforcement, however, is not good because the MOLSP lacks sufficient trained personnel, and employers generally ignore its recommendations. Some labor organizations have pressed for healthier, safer working conditions on behalf of their members. Though they have the right to refuse dangerous work assignments, workers seldom invoke it in practice, appearing to value increased pay over a safe and healthful work environment. Neither the government nor industry, still mostly state owned, has the resources necessary to improve significantly health and safety conditions in the work place.

f. *Rights in Sectors with U.S. Investment.*—The U.S. 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—1993

[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		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		25

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

RUSSIA

Key Economic Indicators

[Billions of rubles unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1990 prices) [2]	459	409	344

Key Economic Indicators—Continued

[Billions of rubles unless otherwise noted]

	1992	1993	1994[1]
Real GDP Growth (pct.)	−12	−11	−16
GDP (at current prices)[2]	18,063	162,301	600,000
By Sector:			
Manufacturing	10,068	88,087	157,888
Services	6,089	64,216	188,898
Agriculture	N/A	N/A	N/A
Real Per Capita GDP (1990 prices)	3,095	2,763	2,332
Labor Force (000s)	75,600	74,900	74,800
Unemployment Rate (pct.)	4.8	5.1	6.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	743	480	[3] 324
Central Discount Rate[4]	80	210	170
Personal Savings Rate[4]	16	26	39
Consumer Price Index	2,501	840	[3] 104
Exchange Rate (USD)[1]	415	1,247	[5] 2,204
Balance of Payments and Trade: (millions of U.S. dollars)			
Total Exports (FOB)	39,972	46,300	48,200
Exports to U.S.	500	1,700	2,800
Total Imports (CIF)	34,984	34,300	33,200
Imports from U.S.	2,100	3,000	2,600
Aid from U.S.	2,380	1,700	1,625
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[6]	87,000	83,700	85,000
Debt Service Payments (paid)	1,815	2,000	4,700
Gold and Foreign Exch. Reserves	3,014	5,875	[5] 4,100
Merchandise Trade Balance	4,988	12,000	15,000
Trade Balance with U.S.	−1,600	−1,300	−200

N/A—Not available.

[1] Figures are from the State Statistical Committee (Goskomstat) and U.S. Embassy estimates. The rapid depreciation of the ruble over the past four years makes it meaningless to delineate this data in dollar terms.

[2] GDP at factor cost. 1990 GDP was 644 billion rubles.

[3] First eight months, not annualized.

[4] Figures are actual, end of period.

[5] As of September 1, 1994.

[6] Russian officials have recently quoted debt stock as high as $112 million in 1994. However, this figure includes debt to former Soviet Union countries and is generally not included in Russia's hard currency debt stock.

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. This was compounded by sharp cutbacks in defense spending and an influx of foreign competition, particularly in consumer goods, at very low import tariff rates. Real GDP fell by 19 percent in 1991, 12 percent in 1992, 11 percent in 1993, and a projected 17 percent in 1994, for a cumulative decline of 47 percent—greater than that experienced by the United States during the Great Depression. However, Russian statistics fail to capture much of the emerging private sector activity, and thus overstate the decline.

The "ruble zone" of the states of the former Soviet Union collapsed in 1993. Following the July 26, 1993 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. This helped bring the ruble under control of the Central Bank of Russia (CBR) and reduced inflationary pressures from other republics.

Massive government credit emissions in 1992 and 1993 produced a surge in inflation, leading the Central Bank to raise the discount rate to 210 percent and tighten

issuance of credits in 1993, achieving a monthly inflation level of 15 percent by the end of that year. In 1994 the discount rate was gradually lowered to 130 percent as inflation fell to 4 percent monthly in August, rising sharply to 15 percent in October after the ruble's crash. The CBR interest rate was increased to 170 percent in October and then to 180 percent in November. The government aims at a monthly inflation rate of five to seven percent by the end of 1994.

Despite falling demand for their products, Russian enterprises continued to borrow money either to maintain the work force or for speculative investments. State subsidies and cheap government credits, massive during 1992 and 1993, declined in 1994 but remain significant for agriculture, defense and the northern territories. Widespread failure of enterprises and the government to pay for purchases produced a chain of inter-enterprise arrears which remained unresolved in December 1994.

Russia's mass privatization program utilized individual vouchers issued to each citizen in its first phase from October 1992 through June 1994. According to the State Property Committee, 70 percent of Russian enterprises are now in the non-state sector. The majority of enterprises were privatized under the so-called "option two," through which enterprises managers and employees purchased 51 percent of the shares. Local state property committees, the central State Property Committee or federal government ministries typically retained a significant interest (up to 30 percent of the shares). The remaining shares were auctioned publicly for vouchers (through June 1994) or cash, a process in which foreign investors were able to participate. Under the second phase of the privatization program, enacted by a July 1994 presidential decree, the remaining 30 percent of state enterprises will be privatized for cash, primarily through auctions and tender offers, aimed at attracting foreign investment. The remaining shares in privatized firms still held by the government will also now be sold. The privatization in this phase will include the land on which enterprises are located.

The right of Russian citizens to own, buy and sell, lease and mortgage land was established by presidential decree in October 1993 and is protected by Russia's constitution, although Russia still lacks a comprehensive law on land ownership to implement these rights. Beginning in 1992, the government formally shifted ownership of land and property to workers and pensioners of state and collective farms. All farm land and other property is now in one of several forms of private ownership. The 1993 presidential decree established the right of farm workers wishing to leave the collective to receive their share of farm property or monetary compensation. So far about 300,000 individual farms have been established, but Russian agriculture is still dominated by the former collectives, which own over 90 percent of arable land and produce over 90 percent of the country's total agricultural output.

The 1994 federal budget, which was approved by the parliament in June 1994, called for a budget deficit of 70 trillion rubles, or roughly 9.6 percent of projected GDP. The actual federal deficit reached 11.8 percent of GDP in the first three quarters of 1994, and is unlikely to fall below 10 percent of GDP by the end of the year. The majority of the deficit (76 percent) in the first three quarters of 1994 was financed by credits of the Central Bank of Russia at below-market rates. The remainder of the deficit was financed equally through government bond offerings and foreign credits. The government's draft federal budget for 1995 calls for zero Central Bank monetary financing of the projected deficit of 7.8 percent of GDP. The government intends to finance 60 percent of the 1995 deficit through government securities' offerings and 40 percent through foreign credits.

Due to lower than expected inflation and GDP and optimistic revenue assumptions, budget revenues for 1994 were down 43 percent from that projected in the 1994 budget law. In response, the government undertook large scale expenditure sequestration in an attempt to keep the budget deficit under 10 percent of GDP. Actual revenues for 1994 can be broken down into tax revenue (70 percent), revenue from foreign trade and foreign operations (10 percent), and non-tax revenue (20 percent—mostly income from the sale or use of government property).

Nearly half of Russia's 1994 exports by value were concentrated in energy and another quarter in raw materials. Trade with industrialized countries in 1994 comprised over 70 percent of total Russian exports and nearly two-thirds of total Russian imports in nominal terms; each was up about 20 percent from 1993 levels. Trade with former Comecon countries, developing countries, and the Baltic states continues to fall, and remains at a fraction of Soviet-era levels.

Russia has several trade agreements with CIS states involving barter or guaranteed delivery of specified commodities, and is in the process of creating a customs union among CIS states. Russia has agreed to a free trade zone with Belarus. A Partnership and Cooperation Agreement signed with the European Union in 1994 awaits ratification. Russia has declared its intention to accede to the GATT (General Agreement on Tariffs and Trade), and is a member of the World Bank and the Inter-

national Monetary Fund (IMF). The U.S.-Russian Trade Agreement of June 1990 provides mutual most-favored-nation (MFN) status. The U.S.-Russian Bilateral Tax Treaty, effective from January 1994, eliminated double taxation of U.S. citizens and firms. The U.S.-Russian Bilateral Investment Treaty, signed in June 1992, awaits ratification by the Russian parliament.

2. Exchange Rate Policy

The Central Bank of Russia quotes a daily official unified ruble exchange rate in dollars and several other hard currencies, based on market exchange rates determined in daily auctions held at the Moscow Interbank Foreign Currency Exchange (MICEX), a private corporation where the bulk of on-exchange hard currency trading occurs. Auction markets are also organized in St. Petersburg, Yekaterinburg, Novosibirsk, Vladivostok, Rostov-on-the-Don and other major cities. The Central Bank intervenes on the MICEX and other exchanges, as well as on the larger interbank market outside the auctions, to smooth currency rate fluctuations and regional supply distortions. While relatively little trading actually occurs on-exchange, the markets are important in setting official prices since CBR intervention occurs there.

The ruble depreciated against the dollar in nominal terms from 1250 to 2200 rubles per dollar but appreciated slightly against the dollar in real terms between January and August 1994. It then took several sharp falls in September and October and, after recovering with the help of extensive Central Bank intervention, declined gradually to 3250 rubles per dollar by the end of November. Central Bank reserves before the October crash stood at 4 billion dollars.

Exporters are required to convert into rubles 50 percent of export earnings at the free market rate. Through a system of "passports" recording all export transactions, the commercial banking system cooperates with official efforts to monitor the repatriation of export earnings. Purchases of property, transfers of capital abroad, and foreign borrowing of resident juridical persons require authorization of the Central Bank. Without Central Bank permission it is illegal for Russian companies or citizens to maintain bank accounts outside of Russia for purposes other than operating expenses. Non-residents can open individual ruble accounts and commercial ruble accounts for servicing foreign trade operations and for investment. Both citizens and non-residents can maintain domestic hard currency accounts.

3. Structural Policies

Russia's rudimentary antitrust law was implemented in December 1993 by presidential decree. A November 1993 presidential decree requires larger companies to establish stock registries to record ownership in the company. The government is preparing securities and brokerage legislation and a commercial code, part of which is encompassed in the recently adopted civil code.

By the end of 1994, prices had been freed on virtually all wholesale and retail goods, and the government planned to free prices on oil (roughly one quarter of the world market price at the time) and oil products in 1995. In November 1994 the government preliminarily approved a policy to restrict the number of products and services subject to federal controls to natural gas, utilities, freight and passenger rail transportation, precious metals and diamonds, airport services, and postal, telephone, radio and television communications.

A new tax code is in preparation to replace the obsolescent one of December 1991. Taxes are confusing, constantly revised and inconsistently applied. Currently all major taxes are collected by a single federal agency and divided between the center and regions according to a revenue-sharing formula, although much ad hoc bargaining still occurs. A 23 percent value-added tax (VAT) is imposed on Russian and foreign firms conducting commercial activities in Russia. Corporate profits, taxed at a rate of 32 percent in 1993, were taxed at 13 percent on the federal level and up to 25 percent by the regions in 1994. Personal income tax rates in 1994 ranged from 12 percent through 30 percent. Wages were subject to social security taxes totalling 39 percent. A 38 percent tax is levied on "excess wages" (above the equivalent of $38 per month as of November 1994). Russian-sourced "passive" income earned by foreigners is subject to a 15 percent withholding tax on dividends and interests and a 20 percent tax on royalties and rents.

The rate of excise tax on imported goods differed considerably from the rate on domestic goods and was assessed on a different basis at the end of 1994, although an April 1994 decree requires that the two systems be unified. Import taxes have risen steadily over the past three years. The latest rise in July 1994 doubled duties on average across the board and raised the average weighted tariff to about 15 percent ad valorem, with some duties well above 30 percent. These have affected U.S. exports including aircraft, automobiles and confectionery. The tariff law promul-

gated in July 1993 establishes types of duties and provides for establishing preferential tariffs on a reciprocal basis.

All enterprises above 100 million rubles capitalization ($80,000 as of December 1993, $30,000 as of December 1994) must be registered with the government, which can involve extensive delays. 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 material reserves, as well as a production-sharing agreement regulating oil export rights are in preparation.

Export taxes, introduced in 1992 because of vast differentials between domestic and international prices, were gradually lowered in 1993 and 1994 and are applied to a diminishing list of commodities, primarily oil and oil products, natural gas, certain non-ferrous metals, timber and wood products, some fertilizers, rare fish and fish products. Special agreements with certain CIS countries, notably Belarus and Ukraine, further reduce or waive these export taxes. Oil exports by some joint ventures have been exempted from the export tax.

Annual quotas and licensing of exports of "strategically important" commodities (e.g. gas, oil, metals, fertilizers, timber), which were designed to limit export volumes and support prices beginning in 1992, were abolished in July 1994 except for oil and oil products (until January 1995) and commodities subject to international agreements. The right to export these commodities remains limited to about 500 "special exporters" certified annually by the Trade Ministry. Since the abolition of quotas and licensing, all export contracts for "strategically important" commodities still require registration with the Trade Ministry, which has proposed extending this system to all exports. The Trade Ministry also is abetting the formation of industry-specific cartels called "unions of exporters," nine of which exist so far, to collectively maintain export prices of "strategically important" commodities and prevent anti-dumping actions.

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 shares of the Soviet debt in exchange for their relinquishing their respective claims on Soviet assets. Russia has reached agreement with Ukraine on debt repayment.

Russia has succeeded in gaining significant temporary relief from its debt burden during the transition to a market economy. An April 1993 agreement with Paris Club creditors rescheduled virtually all of Russia's official bilateral debt arrears and maturities falling due in 1993. The United States and Russia in October 1994 signed a $900 million debt rescheduling agreement, formally putting into effect the Paris Club rescheduling accord reached in June between Paris Club official creditors and Russia. The Paris Club agreed to reschedule $7 billion in official debt owed by Russia in 1994, thus easing the repayment burden. A preliminary agreement with the London Club of commercial creditors followed in October, but a final agreement was still pending as of the end of 1994.

Russia's total external debt to Western creditors is approximately $85 billion, of which half is owed to governments (Paris Club), a third to commercial banks (London Club), and the remainder to foreign exporters. Servicing of the debt in 1994, after rescheduling, was about $4.7 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, and the parliament has imposed the requirement that it must approve new Russian government loans exceeding $100 million. The Russian government claims that it is owed $150 billion from Soviet-era deals. Although most of the debt will probably never be paid, Russia has begun to arrange repayment from some countries in the form of goods; approved traders may bid for the right to import these goods at discounted prices.

Russia became a member of the International Monetary Fund in 1992 and made a first credit tranche drawing of $1 billion. In 1993, based on Russian efforts to limit credit expansion and the budget deficit, the IMF approved a $1.5 billion drawing under the new Structural Transformation Facility (STF). Russia did not meet its 1993 targets, but renewed stabilization policies in the fall of 1993 opened the way for a second $1.5 billion STF drawing approved in the spring of 1994. Russia is engaged in negotiations with the IMF for a Standby Agreement of about $6 billion.

5. Significant Barriers to U.S. Exports

The June 1993 Customs Code, which offers 15 alternative regimes for handling external trade, standardizes Russian customs procedures in accordance with international norms. However, customs regulations change frequently, often without sufficient prior notice, are implemented unevenly, and are subject to arbitrary application. There is no journal similar to the Federal Register which comprehensively covers changes in standards and border restrictions. In December 1993 the United States and Russia implemented a 1990 Customs Mutual Assistance Agreement (with the Soviet Union) which was replaced in September 1994 by a new U.S.-Russian agreement.

Russia's July 1993 Consumer Protection Law stipulates official certification (by Gosstandart) of imported products for conformity to Russian technical, safety and quality standards. Certification is based on a combination of international (notably European Union) and Russian standards. All food items imported into Russia are subject to food quality and safety standards and require a certificate for each shipment. Manufactured items can receive certificates allowing import of a good over a three-year period. Import licenses are required on the normal range of dangerous and harmful materials and goods. U.S. companies have complained of costly procedures and arbitrary certification requirements. Russia is establishing reciprocal standardization with the U.S. and other countries and acceptance of foreign certification by accredited institutions. 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. A February 1994 memorandum of understanding between the U.S. Food and Drug Administration and the Russian Ministry of Health and Medical Industry established a framework for cooperation and exchange of information on drugs and biological products in order to facilitate their importation.

Most service industries still require comprehensive regulatory legislation. Although little of Russia's services legislation is overtly protectionist, the banking, securities and insurance industries have secured concessions in the form of presidential decrees. In practice, foreign companies are often disadvantaged vis-a-vis Russian counterparts in obtaining contracts, approvals, licenses, registration and certification, and in paying taxes and fees.

State procurement plays a limited and declining role for non-defense industries, although production subsidies and government grain purchases continue in agriculture. A December 1993 decree abolished state agricultural purchases at fixed prices. The federal government has earmarked the equivalent of $15 billion for purchase of Russian domestic aircraft to be leased at a discount to domestic airlines. Rail transportation prices have been allowed to rise steadily over the past three years but remain indexed to the cost of inputs. The grain and aircraft programs are supported from a government fund equivalent to $5 billion. The few remaining import subsidies and centralized imports for nongovernment purposes were eliminated in 1994, and the 1995 draft budget contains no provisions for subsidized imports. The U.S. Bilateral Investment Treaty with Russia would provide substantial assurances to U.S. investments if the Russian parliament ratifies it.

6. Export Subsidies Policies

The 1995 budget has no provisions for centralized purchases for exports except military technology, coordinated through a single state organization, Rosvooruzhenie, in accordance with an April 1994 presidential decree. The export of oil, oil products and natural gas is still extensively centralized, and provides a significant portion of federal budget revenue. The government auctions rights to conduct centralized exports of "strategically important" commodities in return for waiving export taxes, although such exports "for state needs" have fallen short of targets due to diminishing margins between domestic and international market prices. Privatized former Soviet foreign trade organizations continue to handle a large share of exports.

7. Protection of U.S. Intellectual Property

In 1992–93, Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings.

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 intro-

duces 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 Berne Convention. The September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for ten years from the date of registration.

Russia has acceded to the obligations of the former Soviet Union toward the Universal Copyright Convention, the Paris Convention, the Patent Cooperation Treaty, and the Madrid Agreement. In November 1994, the government gave authorization for accession to the Berne Convention and the Geneva Phonograms Convention. Under the U.S.-Russian Bilateral Investment Treaty (not yet ratified by the Russian side) Russia has undertaken to protect investors' intellectual property rights. The Bilateral Trade Agreement obligates protection of the normal range of literary, scientific and artistic works through legislation and enforcement. Still ahead are a comprehensive revision, now underway, of the Russian Criminal and Civil Codes, including sections pertaining to intellectual property rights; strengthened penalties; and the establishment of specialized courts, particularly a Patent Court, with trained and experienced judges and attorneys, and trained police and customs officers. 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.

8. Worker Rights

a. *The Right of Association.*—The right of workers to form or join trade unions is guaranteed by the Russian constitution and the Russian Labor Code, but full exercise of that right is limited in practice. The legacy of centralized economic management and communist state trade union structure continues to retard the development of a workers' movement and independent trade unions in Russia. Independent trade unions began to form in 1989 and continue to develop slowly, but the official unions, reorganized as the Federation of Independent Trade Unions of Russia (FNPR), continue to predominate and remain subservient to enterprise managers. The right to leave an official union and join a new one is guaranteed, but in practice many workers are reluctant to take this step because official unions have retained control over the social insurance fund, supported by a 5.4 percent payroll tax and providing short-term disability, maternity, leave, and annual leave benefits. Most Russian workers have little understanding of western concepts of worker rights and do not view trade unions as their advocates. The independent unions have found it difficult to overcome this cynicism and to educate workers about their rights and the role of unions in protecting those rights.

Russian law guarantees Russian workers the right to strike, but numerous restrictions severely limit the exercise of that right. The law prohibits strikes which are for political reasons, which pose a threat to people's lives or health, or which might lead to "severe consequences." This ambiguous language has meant the de facto prohibition of strikes in key sectors of the economy including defense, communications, civil aviation, and railroads. The law also requires a multi-stage process of notification and negotiation before striking, which gives employers ample time to coerce, intimidate or bribe workers. The Russian government has made little effort to protect trade union leaders and strikers from retribution. The ambiguity of Russian labor laws provides employers with opportunities to punish trade union members, and there were numerous cases in 1994 of enterprise managers firing workers for union activities. However, free trade unions have had increasing success obtaining favorable verdicts in labor violations suits in the Russian courts. With U.S. government assistance, the free trade unions have established two labor law centers in Russia to help free trade unions defend their rights.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected by Russian law but is not practiced widely in Russia. Many enterprises refuse to negotiate collective bargaining agreements, and many agreements are not the product of genuine collective bargaining, given the subordinate relationship of official unions to enterprise management. Free trade unions have been more aggressive in demanding genuine collective bargaining. Enforcing management compliance with contracts remains problematic. In several sectors of the economy, wages, benefits and general conditions of work are established by industry-wide tariff agreements reached in talks between trade unions, management and government. This arrangement reinforces the traditional tendency of Russian workers to expect the government to establish wages and other workplace conditions.

c. *Prohibition of Forced Labor.*—Russian law prohibits compulsory labor, and there were no reports of its occurrence in 1994.

d. *Minimum Age for Employment of Children.*—The Labor Code does not permit the regular employment of children under the age of 16. In certain cases, children aged 14 and 15 may work in intern or apprenticeship programs. The Labor Code regulates the working conditions of children under the age of 18, including prohibiting dangerous work and nighttime and overtime work. Government enforcement is largely ineffective, and there is anecdotal evidence to suggest that the protections for children under 18 are violated. The responsibility for the protection of children at work is shared by the Labor Ministry and the Ministry for Social Protection.

e. *Acceptable Conditions of Work.*—The Russian legislature sets the minimum wage, which applies to all workers. The minimum wage in Russia ranged between $5 and $10 per month during the second half of 1994, but the average salary was about $100. The primary purpose of the minimum wage is to serve as a baseline for computing benefits, pensions and some wages scales. For example, the wage scale for government workers, who are among the lowest-paid in Russia, is based on a multiple of the minimum wage. The labor code provides for a standard work-week of 40 hours, which includes at least one 24-hour rest period, premium pay for overtime or holiday work, and minimum conditions of workplace safety and worker health. However, these standards are widely ignored and government enforcement of safety and health regulations is inadequate. Industrial deaths and accidents continue to rise dramatically in Russia. The Labor Ministry reported that 30 Russian workers die and another 50 are injured each day as a result of workplace accidents.

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 markedly from other sectors. The petroleum and telecommunications sectors are highly unionized, but the official unions predominate. The food sector is less unionized but working conditions there are no worse than elsewhere.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		227
Total Manufacturing		−3
Food & Kindred Products	−1	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical (D).		
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing (D).		
Wholesale Trade		2
Banking		0
Finance/Insurance/Real Estate		0
Services		3
Other Industries	(*)	
TOTAL ALL INDUSTRIES		230

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

SERBIA AND MONTENEGRO

Serbia's economy continues to face stringent UN sanctions on trade and financial transfers imposed in May 1992 for support of the war in Bosnia-Herzegovina. In October 1994, after Serbia agreed to seal its Bosnian border, the UN lifted restrictions on international commercial flights and participation in sporting and cultural exchanges; the other sanctions remained in place.

In January 1994, Dragoslav Avramovic, the new Governor of the National Bank of Yugoslavia, introduced an economic stabilization program which dramatically changed Serbia's economic condition. The program established a new currency, the "super-dinar," which is formally pegged on a 1:1 basis with the Deutsche mark. The program also set new curbs on monetary emissions which, according to the Belgrade Institute of Economic Sciences, cut 1993's record hyperinflation to a monthly level of 0.2 percent by September. The National Bank of Yugoslavia reported that between January and August industrial output increased by 26 percent and maintained an average monthly growth rate of 3.4 percent per month. According to some reports, wages have reached the level of early 1992, and increased by a monthly rate of 17 percent from June to September. In the first six months of 1994, foreign exchange reserves increased by over DM 600,000. By April, shops stocked a wide variety of Western goods which were smuggled in despite the tight international sanctions. Although goods were available, questions remained as to whether average citizens could afford them.

Yet the sustained growth of the economy is uncertain; cracks in the stabilization program's facade are becoming more apparent with time. A black market in foreign currency emerged briefly in the spring of 1994 and threatened to reduce confidence in the super-dinar and reignite inflation; similar indications arose in late October 1994. On the labor front, the monthly wage hikes seen in 1994 may also constitute a new inflationary factor. The Belgrade Department of Labor reports over 100,000 unemployed in Belgrade, and over 40 percent of government workers placed on leave. Discontent among workers has resulted in several mini-strikes, and threats of major strikes. Over two thirds of the 1994 wheat crop could only be sold by barter. Holding the line on monetary emissions, the government is running out of money with which to pay its employees. In July the Minister of Energy confirmed suspicions that funds were low for necessary pre-winter maintainance and repairs on power plants.

After years of economic suffering, the Montenegrin president announced in September that for the first time in Montenegrin history there would be a balanced budget. Production in the region was increasing at 0.8 percent a month. Tourism had returned in full swing, yet high prices kept most of the shops empty.

THE SLOVAK REPUBLIC

Key Economic Indicators

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

	1992	1993	1994[1,2]
Income, Production and Employment:			
Real GDP (1984 prices)[3]	6,295	5,223	5,686
Real GDP Growth (pct.)	−7.0	−3.2	3.9
GDP (at current prices)[3]	9,554	10,212	12,062
By Sector:[4]			
Agriculture	541	582	721
Industry	5,354	4,003	4,529
Services	3,659	5,320	7,027
Other	N/A	307	−215
Real Per Capita GDP (USD)	1,186	982	1,063
Labor Force (000s)	2,764	2,347	2,506
Unemployment Rate (pct.)	10.4	14.0	14.6
Money and Prices:			
Money Supply (M2: pct. gwth.)	7.91	7.63	8.19
Base Interest Rate (pct.)[5]	13.4	12.0	12.0
Personal Saving Rate (pct.)	3.3	3.3	2.7
Retail Inflation (pct.)	10.0	23.2	14.2
Wholesale Inflation (pct.)	5.3	17.2	9.4
Consumer Price Index	N/A	23.2	14.2
Exchange Rate (SK/USD)			
Official	28.26	32.97	31.46
Parallel	30.50	N/A	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994[1,2]
Balance of Payments and Trade:			
Total Exports (FOB)[6]	3,624	5,086	6,435
Exports to U.S.	47	58	105
Total Imports (CIF)[6]	3,564	5,914	6,385
Imports from U.S.	58	106	168
Aid from U.S.[7]	28.51	N/A	N/A
Aid from Other Countries[7]	N/A	N/A	N/A
External Public Debt	2,322	3,600	4,150
Debt Service Payment (paid)	N/A	110	390
Gold and Foreign Exch. Reserves	790	1,400	2,300
Trade Balance[6]	60	−828	50
Trade Balance with U.S.	−11	−49	−63

N/A—Not available.
[1] 1994 figures estimated from latest available monthly data in October 1994.
[2] Growth rates calculated in SK before converting to dollars.
[3] In 1993 ESA replaced MPS method of measuring GDP.
[4] Industry includes energy, manufacturing, and construction; services include rents, financial and government services; other is a residual.
[5] Discount rate of National Bank of Slovakia.
[6] Merchandise trade; figures for 1993 and 1994 include trade with the Czech Republic.
[7] Assistance is substantial but current figures unavailable.

1. General Policy Framework

On January 1, 1993, the Slovak Republic gained independence, 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, and all former federal laws were adopted in Slovakia in early 1993. 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 to a modern market economy, Slovakia has had to create new government institutions with limited resources. Data collection and analysis have improved considerably but remain occasionally insufficient (or incompletely converted to international standards). Most of the former CSFR's competitive industry, foreign investment and financial expertise were located in the Czech Republic. The once-powerful armaments industry now produces at less than ten percent of its 1988 level. In consequence, unemployment is much higher in Slovakia than in the Czech Republic.

After elections in Fall 1994, former Prime Minister Vladimir Meciar's HZDS party won a large plurality and formed a new government in December together with two small coalition partners. The new Meciar government replaced the coalition government led by Jozef Moravcik that had ruled since March 1994. The Association of Slovak Workers (ZRS), one of the coalition partners in the new Meciar government, has voiced concern about privatization. An official from ZRS is the new Privatization Minister.

Slovakia has expressed formal interest in EU and OECD membership. Slovakia signed an EU association agreement in October 1993, and the attendant trade provisions have been implelented. The government adheres to EU 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.

In 1993 the general government fiscal deficit fell to 7.5 percent of GDP, above the IMF target but substantially below the underlying 13 percent deficit in 1992 under the Federation. The deficit was aggravated by insufficient tax revenues due to the creation of a new tax system, high levels of social spending in response to the dislocations caused by economic transformation, and debt service obligations. The government's deficit target for 1994 was 4 percent of GDP; by November it appeared that this target would be reached. Certain large items (including $94 million for education and health) remain off-budget. The government has been trying to reduce the generous levels of social payments. A new insurance system was established in January 1993, intended to become self-financing (and off-budget) in 1994. 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.

A restrictive monetary policy has succeeded in increasing foreign exchange resources and limiting inflation. The central bank (National Bank of Slovakia, or NBS) maintained a tight refinancing policy. The NBS uses mostly indirect controls as policy instruments. Reserve requirements remained stable; open market operations and currency swaps are undeveloped and little used. Banks themselves (28 in Slovakia, of which nine are branches of foreign banks) tended to purchase low-risk government securities as their liquidity increased, thereby reducing credit available to private borrowers.

2. Exchange Rate Policy

After the division of Czechoslovakia, an initial monetary union dissolved and the two currencies separated in February 1993. Czechoslovak banknotes with Slovak stamps have been replaced completely by newly-printed Slovak notes. Since July 1994 the Slovak crown has been pegged to the Deutsche mark (60 percent) and the U.S. dollar (40 percent), under the supervision of the NBS. The crown was devalued by ten percent in July 1993 but has since remained stable at approximately 32 crowns to the dollar.

The crown is internally convertible and may move toward full convertibility by the year 2000. The Moravcik government committed to Article VIII status with the IMF by January 1996, and by the end of 1995 to define a clear timetable for ending the Czech-Slovak bilateral payments agreement. Individuals may maintain hard currency accounts and are entitled to purchase 9000 crowns' ($285) worth of hard currency a year, an amount that has been rising annually. 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). Foreign 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 took effect in January 1994. The new legislation includes provisions for restitution claims on Jewish community properties seized after November 2, 1938. Laws on agricultural restitution permit claims of up to 250 hectares of land (150 hectares for arable land). By the end of September 1994, 156,702 hectares of land had been returned to roughly 24,000 claimants; an additional 32,379 hectares representing joint claims were returned to communities. Restrictions on land usage by existing owners have been lifted for 461,810 hectares of arable and wooded land.

Privatization: Both small- and large-scale privatization began in 1991 (prior to the breakup of the CSFR); the former is complete. Approximately 9500 small enterprises, including 6500 retail shops, have been privatized; privatization of urban housing has begun. Large-scale privatization has been repeatedly delayed by political and conceptual changes within the Slovak government, along with bureaucratic bottlenecks. The Moravcik government pursued a mixed approach to privatization which included standard methods and renewed emphasis on use of the voucher method. The first wave of large-scale privatization ended in September 1993, with 703 enterprises valued at $5.3 billion at least partially privatized. The new Meciar government has decided to postpone launching the second wave of voucher privatization, scheduled to start in December 1994. Government officials stated that the second wave would be delayed by only a few months. Prime Minister Meciar planned to remove energy-producing companies and certain other firms from the list of firms to be privatized. Originally, over two billion dollars worth of firms were to be privatized. Almost 3.5 million Slovaks, over 80 percent of those eligible, have registered to participate in the second wave. Overall, the private sector now generates over 40 percent of GDP versus less than ten percent in 1988.

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 1992 United States–Czechoslovakia Bilateral Investment Treaty remains in force in Slovakia.

Taxes: Slovakia introduced a new tax system in January 1993, with later modifications. Taxes are measured by the calendar year and consist of a Value Added Tax (VAT) of 25 percent on most items and 6 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. VAT accounts for about 30 percent of central government revenue; the government is considering a lowering of rates. Measures are also being 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 entered into force in early 1994.

Price Liberalization and Subsidies: In July 1994, selective wage controls were implemented in loss-making enterprises and the energy and finance sectors; most private enterprises are exempt from these controls. 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 price increases during the next two years to bring prices to market levels. Government-granted monopoly rights no longer exist. Direct subsidies to enterprises have fallen to about five percent of GDP. In July 1994 selective wage controls were implemented in loss-making enterprises and the energy and finance sectors; private enterprises are exempt from these controls.

Bankruptcy: Slovakia adopted the 1991 federal law on bankruptcy with additional amendments in June 1993. Under the law, a board of creditors (maximum of seven) formed upon court recommendation may take control of enterprises in bankruptcy proceedings; the board has three months to work out a recovery program before liquidation occurs. The board is elected by domestic creditors, each of whom has one vote regardless of the share of debt held; foreign creditors may not participate on the board. By January 1994 unresolved long-term claims of Slovak companies totaled $2.3 billion, with short-term unresolved claims at $9.1 billion. Some claims have been settled by a mandatory clearing system for enterprise debt (focused on companies in "secondary insolvency," i.e. those who could operate successfully if their debtors paid them). This has been an important hindrance to economic reform, complicating efforts of efficient companies to attract investment due to their unresolved claims, while inefficient companies continue to receive government subsidies.

4. Debt Management Policies

Slovakia has a low level of foreign debt, 80 percent of which is medium-term and the rest long-term. As of late 1994, gross foreign debt was $4.1 billion (roughly one-third of GDP), down slightly from December 1993. Of this, about 56 percent represented debt of the government and the NBS. In September the NBS estimated that 40 percent of Slovakia's foreign exchange reserves are from foreign loans. Debt service for 1994 represents six percent of export earnings, a figure which will increase in 1995. Slovakia holds claims of $2.5 billion on various countries around the world; all bilateral repayment agreements were canceled prior to the dissolution of the CSFR. The former Soviet Union is by far the largest debtor, owing $1.7 billion, half of which is in convertible currency. Payments to and from the Czech Republic are handled through an ECU-based clearing system.

Bad Debts: In September 1994 the Slovak Finance Minister characterized 25 percent ($1.6 billion) of all bank loans as bad. Much of the problem dates back several years to the communist era. In 1991 Czechoslovakia established a Consolidation Bank to centralize part of the debts and liabilities of the banking system, and subsequently the federal National Property Fund issued bonds to aid debt writedowns and bank recapitalization. The government is considering an extensive program to address the related problems of bad debts, inadequate corporate governance, enterprise restructuring, and commercial law reforms. Foreign investors are concerned that Slovak legislation does not permit tax deductions for bad debt reserves and has no provision for reclaiming value-added tax on bad debts. Loss carry-forward provisions are also unclear.

Loan Guarantees: Slovakia has increased its outlays on government loan guarantees (on both domestic and foreign loans), primarily for infrastructure projects; as a share of the budget these rose to 20 percent in 1994. Commercial banks were slightly more active in providing loan guarantees in 1994, providing about $95 million (up 14 percent from 1993).

Adjustment Programs: The IMF approved a credit under the Systemic Transformation Facility (STF) of approximately $89 million for Slovakia in July 1993; 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. In July 1994 the IMF approved $263 million in additional credits, including $169 million under a 20-month standby arrangement and $94 million as a second credit under the STF. The World Bank approved an Economic Recovery Loan of about $80 million in November 1993, with Japanese cofinancing of a like amount;

the purpose of the loan is balance of payments support and broad economic reform including the social safety net. Talks were under way in 1994 with the World Bank for an Enterprise and Financial Sector Adjustment Loan. Since 1992 Slovakia has received over $200 million in technical assistance and other aid from various donors.

5. Significant Barriers to U.S. Exports

In December 1993 Slovakia canceled a temporary measure (implemented earlier in 1993) designed to check the flow of scarce foreign exchange. Payment conditions are now negotiated directly between Slovak importers and their foreign suppliers.

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 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. Lawyers may be licensed either by the Chamber of Advocates or by the Chamber of Commercial Lawyers. Advocates may practice in any field, including commercial law. Commercial lawyers may not practice criminal law. Lawyers may practice as individuals, associations or general partnerships, but not under a limited liability (professional corporation) form. No special permission is required to offer travel or ticket services or air courier services.

Standards, Testing, Labelling, and Certification: Slovak legislation in this area closely follows EU legislation. The Slovak Office of Standards, Metrology and Testing is the responsible office for compulsory and voluntary testing of a wide range of products at 20 testing centers. Testing is compulsory for products in the "regulated" sphere (defined as those which may pose threats to health, life, safety, and the environment) which mainly comprise 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 in early 1995, replacing the old federal system.

Investment: To date Slovakia has taken a positive stance toward foreign investment, though in practice some obstacles 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; no barrier to repatriation of profits or capital; no restrictions on downstream services; and no lack of national treatment. Investment incentives do not provide sufficient provision for accelerated depreciation, in the view of some foreign investors. The government has made clear that certain sectors (e.g., telecommunications, energy) will not be privatized in the short run. It is still uncertain 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 the following agreements: Multi-Fiber Arrangement, Technical Trade Barriers Agreement, Licensing Procedures Agreement, and Agreements on GATT Articles VI and VII. Slovakia ratified the Uruguay Round agreement and joined the World Trade Organization as a founding member.

Tax Concerns: Foreign investors have expressed concerns over several tax issues in Slovakia. Under current law there is no provision for establishment of purely representative (informational) offices exempt from normal tax and accounting requirements. Holding companies are subject to a 15 percent withholding tax on intragroup dividend payments. Since dividends are paid from after-tax profits, they are doubly taxed. Expatriate employees of Slovak entities are not exempted from (relatively high) social security and health insurance payments even when they remain covered under their home-country system.

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. An import surcharge of ten percent on consumer goods was implemented in March 1994 and is to remain in effect into 1995.

7. Protection of U.S. Intellectual Property

The Slovak Republic is a signatory to the same conventions as the former Czechoslovakia, e.g. the Berne, 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. 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 1995, which will be harmonized with EU legislation. 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; however, Slovakia's trademark legislation is based on "first to register" rather than "first to use," which poses potential difficulties for foreign investors.

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; 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 firefighters. At present the policy of the Confederation of Trade Unions regarding collective bargaining excludes strikes as a tactic, and there have been none in 1994.

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. Workers under 16 may not work more than 33 hours per week and are covered by legislation to protect their safety and well-being.

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 workplace. The minimum monthly wage is SK 2450. 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—1993

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
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/Insurance/Real Estate		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.

SLOVENIA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (pct.)	−5.4	1.3	6.0
GDP (at current prices):	12,365	12,672	13,800
By Sector:			
Agriculture	590	563	570
Energy/Water	289	322	360
Manufacturing	4,095	3,870	3,900
Construction	458	521	510
Rents	1,445	1,421	1,600
Financial Services	409	443	450
Other Services	2,637	2,821	3,400
Government/Health/Education	2,368	2,734	3,000
Net Exports of Goods & Services	92	50	200
Real Per Capita GDP (1985 base)	N/A	N/A	N/A
Labor Force (000s)	783	760	748
Unemployment Rate (pct.)	8.3	9.1	9.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	2.8	2.5	1.9
Base Interest Rate[3]	25	18	16
Personal Saving Rate	48	30	24
Retail Inflation	201.3	32.3	20.5
Wholesale Inflation	215.7	21.6	18.5
Consumer Price Index	201	32	21
Exchange Rate (USD/Sit)			
Official	83	115	125
Parallel	87	117	115
Balance of Payments and Trade:			
Total Exports (FOB)	6,681	6,083	6,500
Exports to U.S.	195	216	233
Total Imports (CIF)	6,141	6,501	6,696

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Imports from U.S.	167	188	197
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	1,741	1,873	2,000
Debt Service Payments (paid)	388	374	390
Gold and Foreign Exch. Reserves	1,163	1,566	2,800
Trade Balance	791.1	−154.2	−40
Trade Balance with U.S.	28	28	35

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.

1. General Policy Framework

In 1991, Slovenia set out on the path of complete political and economic transformation. In the first phase, after market reforms and a stabilization policy were introduced, the immediate consequences were predominantly lower employment and somewhat lower standards of living. In the second phase, the positive effects at the macroeconomic level have appeared step by step. But Slovenia is still at the beginning with regard to some crucial elements of its economic transformation, above all with regard to efficient affirmation of property rights (privatization, sanctioning of contracts) and the development of a financial market.

The main reason for the economic depression in 1991–1992 was a dramatic decrease in aggregate demand (the collapsed trade flows with other regions of former Yugoslavia, a decrease of trade with eastern European markets). Likewise the revival of activity in 1993 was also caused by the increase of demand. The contraction of markets in the former Yugoslavia stopped at a low level, but the growth of exports to other countries was high. A very restrictive monetary policy was loosened up to a more neutral one. The credibility of the Slovene currency and domestic institutions significantly increased.

After five years of decline, the GDP increased by one percent in 1993. In the first eight months of 1994, positive growth continued, but under conditions of the declining import of consumer goods and the increasing import of semifinished materials, while the current balance of payment shows a larger surplus again. The actual annual growth rate as of August 1994 was five percent.

The public debt of the Republic of Slovenia, including potential obligations stemming from the state succession negotiations was estimated at 33 percent of GDP at the end of 1993. For loan servicing, 0.8 percent of GDP or 1.6 percent of total public receipts was spent in 1993. Comparable figures for 1994 are 1.1 and 2.3 percent, respectively. Slovenia's public debt is still relatively small.

The Bank of Slovenia has successfully realized its primary goals, lowering inflation and supplying the required quantity of stable money. Other goals were the decreasing of interest rates, facilitating liquidity conditions in commercial banks, and a fluctuation of the tolar's exchange rate on the foreign exchange market. The most often used instruments were the liquidity loans given on the basis of papers of value as collateral. Both M1 and primary money increased in real terms in 1993, while the real growth of money in 1994 is slowing down. In the structure of primary money, the share of giro accounts and bank reserves is increasing at the expense of currency in circulation. Financial assets of the population in banks are increasing very quickly, both in tolar and foreign exchange deposits.

Slovenia signed an accession agreement with the GATT on September 27, 1994. Slovenia has also started negotiations to join the new World Trade Organization.

2. Exchange Rate Policy

When creating its currency (launched on October 8, 1991), Slovenia opted for a managed float of the tolar against the Deutsche mark, rather than a straight peg. A peg remains the long term objective. In real effective terms, the tolar has appreciated strongly against the mark throughout 1992, by 3.3 percent in 1993, and by an additional 6.8 percent in the first eight months of 1994. This is due to a surplus in the balance of payment as well as to a high net inflow of foreign exchange in foreign exchange offices in the country. The mentioned data are valid for the exchange rate for business transactions, which grew at a slightly slower pace than the rate of the Bank of Slovenia ("the official rate"). The latter reflects actual move-

ments of different money aggregates in the previous month and is used for administrative purposes only (customs, etc.).

3. Structural Policies

Slovenia has made significant progress across a broad spectrum of structural reforms. Slovenia is undertaking a rehabilitation and reform of the financial sector and a privatization of "socially-owned capital" to make the economy more market-oriented. Structural reforms in these two areas are interrelated. New prudential regulations (e.g., provisioning, capital adequacy, large borrower limits) and accounting standards (e.g., nonaccrual of late interest) were put in place along with the establishment of Bank of Slovenia supervision activities. The necessary legal framework was erected with the passage of key implementing legislation for ownership transformation; a bankruptcy law; a company law; a banking law; and a securities market and mutual fund law.

With regard to bank rehabilitation, the three most important banks were put under the rehabilitation program. By the end of September 1994, 625 programs for privatization were submitted to the Rehabilitation Agency. These programs cover approximately 850 "socially owned" companies (out of around 2,500). 304 programs were approved (first round of approvals). The programs submitted represent about 55 percent of GDP and an equal percentage of employees.

In 1993, changes were introduced in the personal income tax, effective January 1, 1994. With regard to the corporate income tax, tax holidays have been eliminated and the depreciation schedule has been liberalized. The carry-forward period for losses has been extended to five years from the previous regulation that allowed carry-forward for only one year. A new corporate income tax law has been prepared and is expected to become effective in the Fall of 1994 with the rate lowered from 40 percent to 25 percent. Overall payroll tax rates were lowered considerably during 1993, from 50.35 percent to 44.60 percent on average, as of the second quarter of 1994.

Prices are mainly market driven. Prices for electricity, gas and telecommunications are the only prices still controlled by the government.

4. Debt Management Policies

Public debt of the Republic of Slovenia, including potential obligations stemming from the succession negotiations, is estimated at 33 percent of the GDP at the end of 1993. For loan servicing, 0.8 percent of GDP or 1.6 percent of total public receipts was channeled in 1993. Comparable figures for 1994 are 1.1 and 2.3 percent, respectively. Slovenia's public debt is still relatively small.

According to the Monthly Bulletin of the Bank of Slovenia from August 1994, the latest actual data for foreign debt and foreign exchange reserves are $1,985 million and $2,208 million, respectively. The debt servicing ratio was 5.4 percent at the end of 1993.

From a total debt of $1,985 million, $1,891 million represents long term debt, $84 million accounts for short-term debt, and $10 million is IMF credit (all data are stipulated according to the World Bank methodology). The debt data apply only to loans used directly by Slovene beneficiaries. The division of federal (old Yugoslav) debt (approximately $2.6 billion--obligations to the IMF already excluded) is the subject of ongoing negotiations on Yugoslav succession.

The Republic of Slovenia became a member of the IMF in January 1993. By the decision of the Executive Board of the IMF in December 1992, Slovenia was declared a successor state to a percentage share of assets and liabilities of the former Yugoslavia. At the moment of succession, total liabilities were SDR 51 million dollars, of which disbursed credits amounted to SDR 25.5.

A breakdown by creditors of the external long-term debt follows (millions of dollars): 1) multilateral 442 (IBRD 120, EBRD 14, EIB 204, IFC 65, EUROFIMA 39); 2) Paris Club 227; 3) Refinancing: commercial banks 418; 4) Other long-term loans 804.

Following the Slovene Government's decision of January 13, 1994, payments related to the following obligations are, until final agreement is concluded, made to a fiduciary account of the Bank of Slovenia in the Dresdner Bank, Luxembourg SA: 16.39 percent of interest due under the "Yugoslav New Financing Agreement" (NFA) from 1988 for the amounts for which the obligor is the National Bank of Yugoslavia; principal and interest due under the NFA, for live credits only, where the beneficiary is a Slovene entity; and amounts on deposit with the Ljubljanska Banka d.d. under the Trade and Deposit Facility Agreement from 1988. The balance of this account as of July 31, 1994 is $68 million.

5. Significant Barriers to U.S. Exports

Traditionally, Slovenia had a relatively market oriented economic system with liberalized prices and a high degree of openness to foreign trade. With the beginning of its transition to a market oriented economy, Slovenia gradually loosened the remaining obstacles in its foreign trade regime. However, some statutory barriers to foreign investment remain.

In October 1994, Slovenia became a member of the GATT. Slovenia has started negotiations to join the new World Trade Organization. Slovenia had prepared all the necessary measures to comply with GATT by the first half of 1994.

Foreign Investment: Two major barriers to U.S. investment exist. First, any company incorporated in Slovenia must have a managing director of Slovene nationality, or the majority of the board of directors must be Slovene. Second, a foreign registered company or individuals of foreign nationality are not allowed to buy (own) land in Slovenia. However, any company incorporated in Slovenia, regardless of the origin of its founding capital, may buy real estate in Slovenia.

Slovenia's exchange system is free of restrictions on the making of payments and transfers for current international transactions, following the removal of a restriction limitating transferability of tolar balances held by certain nonresidents.

6. Export Subsidies Policies

Slovenia has no special export subsidies policy. The Slovene economy has always been export oriented. It is driven by the exchange rate of domestic currency only. As a fledgling nation, Slovenia lacks different tools to stimulate exports. Slovenia adopted new legislation in 1994 on tax exemptions on imported inputs. This helps domestic companies compete with foreign competition on a more equitable basis.

7. Protection of U.S. Intellectual Property

Intellectual property is well protected in Slovenia, and the governments's commitment to such protection is high. Two bills were submitted to the Parliament in 1994. The bills are the Act on Protection of Topography of Semiconductors Circuits (which is harmonized with the American Patent Office) and the Copyright and Related Rights Act.

Slovenia is a member of all major relevant conventions such as the Bern, Paris, WIPO, Madrid Arrangement of Internationally Registered Marks, PCT, and two classification arrangements: Locarno, and Nice. By the end of 1995 Slovenia will fulfill all obligations from the Uruguay Round's Trade Related Aspects of Intellectual Propertry Rights agreement (TRIPs), including Trade in Counterfeit Goods.

Some years ago, computer software and video piracy was present in the country. However, several successful court cases in the late eighties helped remedy the situation. The first and best known case involved the U.S. company Autodesk. Today Slovenia's position is comparable to that of the West.

8. Worker Rights

a. *The Right of Association.*—The Slovene constitution provides that trade unions, their operation, and their membership shall be free. Workers, except for some in the public sector, enjoy the right to strike. Virtually all workers, except for the police and military, are eligible to form and join labor organizations of their own choosing.

The former Yugoslav government-sponsored and controlled unions disappeared with Slovenia's independence in 1991. Slovenia now has two main labor groupings, with constituent branches throughout the country. There is a third, much smaller, regional labor union on the Adriatic coast. Unions are independent of government and the political parties. The constitution provides that the state shall be responsible for "the creation of opportunities for employment and for work." There are no restrictions on affiliating with like-minded international union organizations.

b. *The Right to Organize and Bargain Collectively.*—Slovenia's economy is in transition from the command economy of the communist system, which included some private ownership of enterprises along with state and "social" ownership. In the transition to a fully market based economy, the collective bargaining process is changing. Formerly, the Yugoslav government had a dominant role in setting the minimum wage and conditions of work. The Slovene government still exercises this role to an extent, although private businesses, growing steadily in number, set pay scales directly with their employees' unions or employee representatives. The U.SS Embassy has received no reports of anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—There is no forced labor in Slovenia.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 16 years. Children must remain in school until age 15. During the harvest on the

farms younger children do work. In general, urban employers respect the age limits. The constitution specifically prohibits exploitation of children.

e. *Acceptable Conditions of Work.*—Slovenia has a minimum wage of $240 (gross wage) per month, with a 40 hour work week. Slovenia has an active concern for occupational safety. In general, Slovene enterprises provide acceptable conditions of work equal to standards in force in other European countries.

f. *Rights in Sectors with U.S. Investment.*—The information given above on the five areas of concern for worker rights, applies equally in all sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		−4
Food & Kindred Products	0	
Chemicals and Allied Products	−4	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		−4

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

SPAIN

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1986 prices) [2]	393.2	312.0	303.0
Real GDP Growth (pct.)	0.8	−1.0	1.7
GDP (at current prices) [2]	576.3	478.4	479.1
By Sector:			
Agriculture	20.3	16.5	17.2
Industry	133.8	108.3	108.3
Construction	49.5	39.2	38.3
Services	334.9	286.7	285.7
Net Exports of Goods and Services	101.4	94.6	105.3
Real Per Capita GDP (USD:1986)	10,082	7,980	7,728
Labor Force (000s)	15,193	15,406	15,550
Unemployment Rate (pct.)	20.1	23.9	24.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	1.5	−15.8	−3.8
Base Interest Rate [3]	13.5	12.6	10.2
Personal Saving Rate	19.3	19.4	20.0
Retail Inflation	5.9	4.6	4.5
Wholesale Inflation	1.4	2.4	4.0
Consumer Price Index	100.4	105.0	109.3
Exchange Rate (Pta/USD)	102.1	127.4	133.0

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Balance of Payments and Trade:			
Total Exports (FOB)[4]	64.7	59.5	70.0
Exports to U.S.	3.1	2.9	3.0
Total Imports (CIF)[4]	99.9	78.6	85.0
Imports from U.S.	7.4	5.6	5.7
External Public Debt	79.8	N/A	N/A
Debt Service Payments (paid)	21.8	N/A	N/A
Gold and Foreign Exch. Reserves	50.5	45.3	45.0
Trade Balance[4]	−35.2	−19.1	−15.0
Trade Balance with U.S.	−4.3	−2.7	−2.7

[1] 1994 Figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] Actual, average annual interest rates, not changes in rates.
[4] Merchandise trade.

1. General Policy Framework

Following the economic boom of 1986–90, the Spanish economy slowed down and, along with the economies of most other western European countries, fell into recession during the second half of 1992. Unemployment reached over 24 percent, and is not expected to decline significantly during 1994. Devaluation of the peseta since 1992 and the beginning of economic recovery in Spain's major European markets are contributing to an export-led economic recovery; real GDP is expected to grow by around 1.7 percent in 1994.

Spain's accession to the European Union (then called the European Communities) 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 1992 Maastricht Treaty, calling for eventual Economic and Monetary Union (EMU) among the EU member states, established specific criteria for economic performance which now serve as official objectives for the Spanish government. In particular, those criteria call for reduced government deficits, lower inflation and foreign exchange stability. Foreign investors, principally from other EU countries, have invested over 60 billion dollars in Spain since 1986.

Inflation continues to be a problem. Despite the recession and massive unemployment, Spanish inflation declined only to 4.5 percent by the end of 1993, and is generally expected to stay close to that level in 1994, some two percentage points above the EU average. In years past, high wage settlements contributed significantly to inflation. Wage settlements in 1994, following modest reforms to the labor market at the beginning of the year, have been more moderate. Inflationary pressure from the fiscal deficit continues, however, as the public sector deficit reached 7.3 perent of GDP in 1993, and will stay close to seven percent in 1994. Spanish economists also note that structural rigidities—basically a lack of competition in certain service sectors—also contribute to inflationary pressures.

2. Exchange Rate Policy

Spain joined the European Monetary System (EMS) in mid-1989. 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 around the European Currency Unit (ECU) in August 1993. Since September 1992, the peseta has declined by 18 percent against the ECU and 25 percent against the Deutsche mark; the peseta has remained among the weakest currencies within the EMS, although it has not tested the boundaries of the 15-percent band.

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 were 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 nontariff 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. The agreement was extended through 1994. The Uruguay Round agreement had the effect of extending this agreement indefinitely. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue. U.S. exports of corn and sorghum, of about $200 million annually, are an important part of 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 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.

EU ratification of the Uruguay Round trade agreement will deepen trade liberalization and apply it to new sectors. The Government of Spain also ratified the Uruguay Round package and joined the World Trade Organization (WTO) as a founding member.

4. Debt Management Policies

Spain's external debt totalled $79.8 billion in December 1992 (latest data available). Foreign investors bought heavily into Spanish government long-term debt during 1993, profitting as interest rates declined from 12.2 percent in January 1993 to eight percent in February 1994. Foreign investors held about $38 billion of this debt in March 1994, but have since reduced their position in this market as interest rates have trended upwards. The Spanish government has signed standby loan arrangements in foreign currency with consortia of private banks, and reached agreement with investment banks to float bonds in foreign markets, as alternatives to domestic financing.

International reserves totalled $4.8 billion in July 1994, equivalent to six months of imports. Moody's rates debt of the Kingdom of Spain as AA2.

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. However, the Uruguay Round agreement established that these variable levies will be replaced by fixed import duties beginning on July 1, 1995. In addition all import duties on agricultural products will be reduced during the five year period from 1995 to 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. These regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone treated beef, imposed 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.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging,

impact on the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation became fully implemented in Spain, and now agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain now requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is now required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation. In 1994, a shipment of squid from the U.S. had difficulty entering Spain as authorities were concerned that it exceeded maximum levels of copper, which is considered a heavy metal under Spanish food and drug law. Neither the U.S. nor the EU impose a standard regarding copper.

Telecommunications: Spain's telecommunications policy is in flux, as the Government of Spain simultaneously seeks to assure the continued strength of Telefonica, the state controlled public telephone operator, and to liberalize the market in order to attract foreign investment and comply with EU guidelines. Although regulations liberalizing value-added services were issued in 1991, U.S. companies trying to establish these services, particularly international virtual private networks (IVPNs), closed user groups, and real-time fax and voice data service, have encountered obstacles.

Recently, progress has been made. In October 1994, the Government of Spain began taking bids on its second digital cellular license. (Under the terms of its 30-year contract with the government, Telefonica will be awarded the first digital cellular license on a non-competitive basis.) The Government of Spain has stated that it hopes to award the permit by the end of 1994, which would allow the winning company to begin operating in mid-1995. Telefonica has already been offering analog cellular services for over two years, and therefore begins the battle for the digital market with a substantial advantage.

In its role as public telephone operator, Telefonica has embarked on an ambitious project to upgrade Spain's communications infrastructure. It plans to lay 2,500 kilometers of fiber optic line in the next one to two years. The Spanish firm is also a major buyer of U.S. switching and transmission equipment, and has indicated interest in forming alliances with U.S. companies.

Banking Services: Spain's transposition of the EU second banking directive in March 1993 placed U.S. banks with branches in Spain at a potential competitive disadvantage with respect to branches of EU banks in Spain. Spanish regulatory authorities temporarily waived the most onerous restrictions, however, and negotiations are underway for a permanent 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 nondefense-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 transposed the EU broadcast directive in July 1994. It imposes a requirement that 51 percent of broadcast time be reserved for European products. The EU is considering revisions in this directive. Should the revisions result in further increases in the European content reservations, this would, of course, further restrict the Spanish market for U.S. products. 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. The government plans to introduce legislation to regulate cable T.V. Two operating concessions would be granted in each specified geographical area. One concession would be reserved for Telefonica, the state controlled public telephone operator, while one would be assigned to a private firm through competitive bidding.

Motion Picture Dubbing Licenses and Screen Quotas: Spain requires issuance of a license for dubbing non-EU films into Spanish for distribution in Spain. Dubbed movies are commercially more successful than subtitled original language films in

the Spanish market. To obtain a license, distributors must contract to distribute an EU film. Changes in the Cinema Law, implemented in December 1993, increased the number of viewers which the EU film must attract for it to confer a dubbing license, and imposed requirements for dubbing into minority languages. The law also requires cinemas to show one day of EU films for every two days of non-EU films. Efforts are underway to seek administrative revisions in the law to limit its prejudicial effects on non-EU producers and distributors.

Product Standards and Certification Requirements: While product certification requirements (homologation) have been liberalized considerably since Spain's entry into the 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. For example, U.S. exporters of gas connectors have had difficulty in obtaining permission for the entry of their products into Spain.

Another example of such stringent procedural requirements has to do with the import of live bivalve mollusks. Since July of 1993 a new purification process for the mollusks is required along with an acceptable certification from recognized U.S. authorities. All this can delay the shipment of clams to the Spanish market, increase production cost and adversely affect product quality.

The Spanish government generally holds that it does not use product certification procedures to hinder trade. It has been cooperative in resolving specific trade issues brought to its attention. The United States has encouraged Spain to simplify its certification procedures and make them more transparent. In this regard, mutual recognition of product standards and testing laboratory results is being pursued at the EU level.

6. Exports Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently, China. Such credits reportedly are consistent with the OECD arrangement on offically supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to $551 million in 1993. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, sheep and goat meat, and fruits and vegetables benefitted most from these subsidies in 1993.

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 Trademarks. Spanish government officials have said that their laws reflect genuine concern for the protection of 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 have advised that the impact of the new product protection law will not be felt until early in the next century when new pharmaceutical product 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 have complained that this provides effective patent protection only 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 reported improved ability to secure court orders after 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 December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits. Some searches have taken place under these provisions.

Continuing Spanish government enforcement efforts have reduced video and audio cassette piracy although it remains a significant problem. 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. This process would be speeded up if, as the government has proposed, a new cable television law is enacted which grants exclusive franchises over large areas. 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 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.

8. Worker Rights

a. *The Right of Association.*—All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations. 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 the average for the whole 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 widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children.*—The legal minimum age for employment as established by the Workers Statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The Workers Statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work.*—Workers in general have substantial, well defined rights. A 40 hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments—one paycheck each month and an "extra" check in June and in December. Based on a 1994 average exchange rate of 133 pesetas to the dollar and full days and years of work, the legal minimum wage for workers over 18 is $15.18 per day or $455.41 per month. For those 16 to 18 it is $10.03 per day or $300.90 per month. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working con-

ditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome. Safety and health legislation is being revised to conform to EU 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		140
Total Manufacturing		3,481
Food & Kindred Products	622	
Chemicals and Allied Products	549	
Metals, Primary & Fabricated	122	
Machinery, except Electrical	415	
Electric & Electronic Equipment	237	
Transportation Equipment	946	
Other Manufacturing	590	
Wholesale Trade		984
Banking		1,090
Finance/Insurance/Real Estate		160
Services		405
Other Industries		176
TOTAL ALL INDUSTRIES		6,437

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

SWEDEN

Key Economic Indicators

[Billions of Swedish kronor (SEK) unless otherwise noted]

	1992	1993	1994 est.
Income, Production and Employment:			
Real GDP (1985 prices)	943.7	971.9	1,001.5
GDP Growth (pct.)	−1.7	−1.7	−2.8
GDP (at current prices)	1,438.2	1,436.5	1,431.7
GDP by Sector: (value added 1985 prices)			
Agriculture/Fishing	4.8	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 (000s)	4,516	4,429	4,305
Unemployment Rate (pct.)	2.9	5.3	8.0
Money and Prices (annual percentage growth):			
Money Supply (M3)[1]	661.8	682.8	673.65
Base Interest Rate (3-month STIBOR)	13.69	11.87	7.95
Personal Saving Rate (pct.)	3.4	8.1	9.9

Key Economic Indicators—Continued

[Billions of Swedish kronor (SEK) unless otherwise noted]

	1992	1993	1994 est.
Producer Prices	4.5	1.0	2.2
Consumer Prices	9.4	2.3	4.6
Exchange Rate (SEK/USD1.00)	6.05	5.81	7.75
Balance of Payments and Trade:			
Total Exports (FOB)	332.1	339.9	335.2
Exports to U.S.[2]	30.9	29.2	30.3
Total Imports (CIF)	316.2	323.6	307.1
Imports from U.S.[2]	25.9	28.0	30.2
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt[1]	59.0	243.5	359.2
Debt Service Payments[3]	22.1	17.5	55.4
Gold & Forex Reserves[1]	99.7	163.6	177.2
Balance on Current Account	−20.3	−29.0	0.0

[1] Year-end and 09/30/94.
[2] Annualized 1994 figure based on first half-year data.
[3] Interest and amortizations on central government external funded debt. For 1994, 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, and a skilled and educated work force. The Swedish economy has evolved from a centuries-old resource base of ore, timber, and hydropower into an economy based increasingly on high-technology goods and post-industrial services. A third of GDP is exported, and Sweden supports liberal trading practices strongly. Sweden formally applied for membership in the European Union (EU) in 1991, completed accession negotiations early in 1994, and became a member on January 1, 1995.

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.

During 1994 Sweden was slowly but clearly pulling out of her worst and most protracted recession since the 1930s. (GDP declined by some six percent in the three-year period 1991–93.) Unemployment in 1994 averaged 13 to 14 percent, generally trending downward during the year. (Swedish practice is to quote two unemployment figures, open and disguised. "Disguised" unemployment, those in training and work programs, accounts for six percent of the total unemployment.) Interest rates rose to very high levels in the wake of general unrest in European financial markets, hastening bankruptcies and hampering investment, and even after falling back have remained at levels well above those of Germany. This development helped ease the ongoing financial crisis somewhat. After defending the krona's fixed exchange rate through several waves of speculation in late 1992, Sweden floated the krona on November 19, 1992.

Though the export sector is strong, the domestic economy remains weak. Structural changes in recent years have prepared the way for future economic growth. This process was begun by the former Social Democratic government, which: deregulated the credit market; began deregulating agriculture; 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 moderate-led coalition government that came to power in 1991, while moving rapidly down the path of European integration staked out by the Social Democrats, also achieved some tax reduction, began the privatization of government-owned corporations, stepped up investment in infrastructure, and increased investment in education and research.

Budgetary constraints are governing the speed with and extent to which some of the government's programs can be implemented. Until the economy picks up sufficient momentum, the watchwords of both the former moderate-led coalition and the new Social Democrat government are fiscal restraint and continued public sector austerity.

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 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 Deutsche mark, 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 after the direct effects of the float and 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 ran at almost 75 percent of GDP, versus an average for OECD Europe of under 50 percent. 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 or plant and equipment are generous, though social security contributions for the work force add a further one-third or so to employers' gross wage bills. Swedish value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 21 percent for food, domestic transport, and many 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, will increase slightly due to EU membership.) 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 re-export 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. EU membership, though, will require Sweden to adhere to the EU's Common Agricultural Policy and apply its regulations, in effect re-regulating the agriculture production sector.

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 so far poses 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, ferro-alloys, 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 exports.

Having adjusted its laws and regulations to EU practices in preparation for EU membership, Sweden is now open to virtually all foreign investment and allows 100-percent foreign ownership except in areas of air and maritime transportation and the manufacture of war material. In recent years Sweden has done away with laws governing foreign acquisitions of domestic 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. Corporate shares in Sweden can still have differing voting strengths, however.

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 on government procurement, standards, etc.

Public procurement regulations have been harmonized with 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, transport, energy, and telecom sectors. Under the EEA Agreement, Sweden must publish all government procurement opportunities in the European Community 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 LDCs 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. As a member of the EU, Sweden's 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 Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As a signatory to the EEA Agreement, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights. Swedish intellectual property practices have no adverse impact on U.S. trade.

8. Worker Rights

a. *Right of Association.*—Swedish workers have the right to associate freely and to strike. Unions conduct their activities with complete independence from the gov-

ernment and political parties, although the Confederation of Labor Unions (LO), the largest federation, has always been allied with the Social Democratic Party. Swedish trade unions are free to affiliate internationally and are active in a broad range of international trade union organizations.

b. *Right to Organize and Bargain Collectively.*—Workers are free to organize and bargain collectively. Collective bargaining is carried out in the form of national framework agreements between central organizations of workers and employers, followed by industry and plant-level agreements on details. 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 of 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. In effect, however, very few 16- or 17-year-old children are employed, except in summer vacation jobs. 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 of paid annual leave, and many labor contracts provide more.

Occupational health and safety rules, set by the governmental National Board of Occupational Health and Safety in consultation with employer and union representatives, are closely observed. In companies with 50 or more employees, trained safety stewards monitor observance of regulations governing working conditions. Safety stewards have the authority to stop life-threatening activity immediately and to call for a labor inspector.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1
Total Manufacturing		1,166
Food & Kindred Products	17	
Chemicals and Allied Products	66	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	−10	
Transportation Equipment	(1)	
Other Manufacturing	95	
Wholesale Trade		370
Banking		(1)
Finance/Insurance/Real Estate		167
Services		70
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,802

[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 U.S. dollars]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1980 prices)	148,689	140,044	[1] 72,988
Real GDP Growth (pct.)	−0.3	−0.9	[1] 1.8
GDP (at current prices)	241,354	232,179	[1] 123,464
Real Per Capita GDP	21,729	20,448	N/A
Labor Force (000s)	3,572.8	3,552.1	[2] 3,503.1
of Which are Foreigners	948.5	935.3	[2] 944.8
Unemployment Rate (pct.)	2.5	4.5	[2] 4.6
Money and Prices:			
Money Supply (M2/pct. gwth.)	0.5	−7.9	[3] −2.8
Base Interest Rate (pct.)	6.0	4.0	[2] 3.5
Personal Saving Rate (pct.)	12.7	12.0	[4] 11.7
Retail Inflation (pct.)	4.0 .3	[3] 1.2	
Wholesale Inflation (pct.)	0.1	0.2	[3] −0.7
Consumer Price Index	133.9	138.3	[3] 140.0
Exchange Rate (USD/Sfr)	0.712	0.677	[3] 0.699
Balance of Payments and Trade:			
Total Exports	61,377	58,653	[1] 30,996
Exports to U.S.	4,989	5,020	[1] 2,693
Total Imports	61,798	56,695	[1] 30,083
Imports from U.S.	3,660	3,247	[1] 1,739
External Public Debt	91,715	102,159	N/A
Debt Service Payments ($Bil.)	7.0	7.4	[4] 7.8
Gold and Foreign Exch. Reserves	26,691	27,648	[3] 30,022
Trade Balance	−421	1,957	[1] 913
Trade Balance with U.S.	1,329	1,773	[1] 954

N/A—Not available.
[1] First half of 1994.
[2] End of June 1994.
[3] Average of first six months of 1994.
[4] Estimated.

1. General Economic Framework

As a country that has only its famous mountains as natural resources, Switzerland derives its wealth from international trade in goods and services. Swiss exporters of goods mainly operate in hi-tech niche markets, where they often have a clear competitive advantage over foreign rivals. In services, Swiss banking and other financial services are reputed for their efficiency, performance and customer privacy. But when Swiss voters decided in December 1992 to reject the European Economic Area (EEA) treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, without being part of the EEA, nor being a member of the EU. With over 60 percent of its exports going to Europe, the Swiss government is making every effort to limit the negative effect on the domestic economy that may result from the EEA rejection. In this respect, the conclusion of the Uruguay Round was considered by experts as a way to avoid possible discrimination against Swiss products in EU markets. Parliament will discuss the ratification of the GATT agreement in December 1994, and if no referendum delays the process of ratification, Switzerland should join the WTO by May 1995.

In general, Switzerland does not use any fiscal policy tools to stimulate the economy. The exception to the rule was a $400 million investment bonus, launched by the Federal government in 1993, which stimulated construction activity in 1994. As a result of economic recession and excessive government spending toward the end of the 1980's, Switzerland had combined budget deficits on all three government levels of over $10 billion, or 4.2 percent of GDP, at the end of 1993. Financed by government bonds, the large budget deficits also caused public debt to increase. Federal and cantonal governments initiated measures to curb expenditures in order to reduce budget deficits from 1994 on.

The main objective of Swiss monetary policy is price stability. Under the responsibility of the Swiss National Bank (SNB), monetary policy is carried out through open market operations. Besides being independent from the government, the SNB keeps its independence from other central banks. However, 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. Lately, the large budget deficits and public debt raised concerns over possible negative influences on interest rates.

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

Because of Switzerland's high level of dependence on international trade, few structural policies have a significant effect on U.S. exports. One exception is the field of services, where Swiss telecommunication policy has a significant impact on demand for U.S. exports. The PTT (a public corporation within the government) still has a monopoly over voice transmission, and telecommunication equipment has to be approved by an (independent) Federal office.

Agriculture is heavily regulated and supported by the Federal government. Farmers' revenues are pegged to those of blue collar workers in industry through guaranteed prices or direct payments. 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. In parallel to the Uruguay Round, the Swiss government started to reform agricultural policy by switching from price subsidies to direct payments. As a result of the Uruguay Round, Switzerland will have to convert all non-tariff barriers into tariffs and reduce them by an average of 30 percent within six years. These changes are likely to have a favorable effect on U.S. agricultural exports.

In November 1993, the Swiss electorate voted in favor of a change from a 6.2 percent turnover tax on goods to a 6.5 percent value added tax (VAT) on goods and services. The introduction of the new tax system at the beginning of 1995 is expected to add 1.5 percentage points to the consumer price index. If the SNB can ward off the beginning of a wage-price spiral, the one-time impact of the VAT on prices should have no influence on the growth of the economy.

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: In general, import licenses are required for all imports of goods. They are granted freely and serve primarily statistical purposes. However, import licenses for agricultural products are subject to quotas and tied to the obligation for importers to take a certain percentage of the domestic production. The implementation of the Uruguay Round will remove some of these restrictions that also affect U.S. agricultural exports (asparagus, wine).

Services Barriers: With the exception of telecommunications, the Swiss services sectors feature no significant barriers to U.S. exports. A new banking law, entering into force on January 1995, allows foreign banks to open up subsidiaries, branches, or representative offices in Switzerland without approval by the Federal Banking Commission. This liberalization is based upon reciprocity, and the Government of Switzerland, vis-a-vis countries where it does not have extensive contacts already, will require written assurance that reciprocal access is provided. In addition, a new Federal law on stock exchanges, which should enter into force in mid-1995, will replace the existing system of cantonal regulations. The new law is characterized by a high degree of self regulation and contains the principle of national treatment.

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 here. Government regulations do not call for any special restrictions on foreign insurers established in Switzerland.

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.

The most serious barriers to U.S. exports exist in the domain of telecommunications. The Swiss PTT controls the public network and all services related to voice transmission. Satellite communication requires licensing by the PTT, and telecommunication equipment has to be approved by the Federal Office of Telecommunication (separate from the PTT). The Swiss PTT has the possibility to take stakes in private companies operating in the domain of Value Added Network Services (VANS), which have been liberalized, whereas the private sector has no access to markets controlled by the PTT.

Standards, Testing, Labeling, and Certification: As mentioned before, telecommunications equipment has to be certified by the Federal Office of Telecommunication. Household electrical appliances must be tested and approved by the Swiss electrotechnical association, a semi-official body. Cars, motorcycles and trucks have to comply with Swiss technical standards. Finally, drugs (prescription and over-the-counter) must be approved and registered by the Intercantonal Drug Agency. Other standards and technical regulations in force in Switzerland are based on international norms. Labels are required to be in German, French and Italian.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: Ownership of real estate by foreigners; limits on the number of foreign workers; and restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland. For reasons of national security, foreign participation in the 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, are restricted by law.

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 get governmental approval, citing 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. Most corporations limit the number of shares to between two and five percent of the relevant stock.

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 workforce. Sectors like construction and tourism rely on a pool of unskilled, low-paid seasonal workers. High-tech and research-intensive sectors depend on highly skilled and specialized foreign workers. In the chemistry industry, for instance, the proportion of foreigners working in research departments exceeds 40 percent.

In September 1994, parliament agreed to liberalize to some extent the law governing the purchase of property by foreign nationals or foreign-owned companies. Under the modified law, foreigners would no longer need an authorization from cantonal governments to acquire real estate. However, to avoid speculation, ownership of property by foreigners will be limited to the purpose of 'own use', which means that only foreigners working and living in Switzerland, or companies located in Switzerland, are allowed to buy property. The system of quotas for the acquisition of secondary residences by foreign nationals was maintained under the new law.

Government Procurement Practices: On the federal level, Switzerland fully complies with GATT rules concerning public procurement. On the cantonal and local level, however, procurement practices are still subject to certain restrictions.

Customs Procedures: Customs procedures in Switzerland are straightforward and not burdensome. All countries are afforded GATT most-favored-nation treatment.

6. Export Subsidies

Switzerland's only subsidized exports are in the domain of agriculture, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Rare temporary surpluses of domestic products, like beef or concentrated apple juice, are also subsidized. The implementation of the Uruguay Round will require a gradual reduction of export subsidies in Switzerland.

7. Protection of U.S. Intellectual Property.

Switzerland has one of the best regimes in the world for the protection of intellectual property, and protection is afforded equally to foreign and domestic rightsholders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text in the GATT Uruguay Round negotiations.

Patent protection is very broad, and Swiss law provides rights to inventors that are comparable to those available in the United States. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty, making it possible for inventors to file a single patent application in the United States (or other PCT country, or any member of the European Patent Convention, once it enters into force) and receive protection in Switzerland. If filed in Switzerland, a patent application must be made in one of the country's three official languages (German, French, Italian) and must be accompanied by detailed specifications and if necessary by technical drawings. The duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale. Patents are not renewable beyond the original 20-year term.

According to the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: surgical, therapy and diagnostic processes for application on humans and animals; inventions liable to disturb law and order and offend "good morals." Nor are patents granted for species of plants and animals and biological processes for their breeding. In virtually all other areas, coverage is identical to that in the United States.

Trademarks are also well-protected. Switzerland recognizes well-known trademarks and has established simple procedures to register and renew all marks. The initial period of protection is 20 years. Service marks also enjoy full protection. Trademark infringement is very rare in Switzerland—street vendors are relatively scarce here, and even they tend to shy away from illegitimate or gray-market products.

A new copyright law in 1993 improved a regime that was already strong. The new law explicitly recognizes computer software as literary works and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment. Owners of television programming are fully protected and remunerated for rebroadcast and satellite retransmission of their works, and rights-holders have exclusive rental rights. Collecting societies are well established. Infringement is considered a criminal offense. The term of protection is life plus 70 years.

The Swiss also protect layout designs of semiconductor integrated circuits, trade secrets, and industrial designs. Protection for integrated circuits and trade secrets is very similar to that available in the U.S., and protection for designs is somewhat broader.

8. Workers Rights

a. *The Right of Association.*—All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives. The change from an industrial to a service-based economy, the high standard of living shared by a prosperous workforce, and the Swiss system of direct democracy, which accords citizens a voice on important political, social, and economic issues, are some of the reasons for the limited interest in union membership. Unions are free to publicize their views and determine their own policies to represent member interests without government interference. The Swiss Trade Unions Federation belongs to the International Confederation of Free Trade Unions and the World Confederation of Labor, as well as to the European Trade Union Confederation.

The right to strike is legally recognized, but a unique informal agreement between unions and employers—in existence since the 1930's—has meant fewer than 10 strikes per year since 1975. There were no significant strikes in 1994.

b. *The Right to Organize and Bargain Collectively.*—Swiss law gives workers the right to organize and bargain collectively and protects them from acts of anti-union discrimination. The government encourages voluntary negotiations between employer and worker organizations. There are no export processing zones.

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 Wage for Employment of Children.*—The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated. For example, youths may not work at night, on Sundays, or under hazardous or dangerous conditions.

e. *Acceptable Conditions of Work.*—There is no national minimum wage. Employer associations and unions negotiate industrial wages during the collective bargaining process. Such wage agreement are also widely observed by non-union establishments. The labor act established a maximum 45-hour workweek for blue- and white-collar workers in industry, services, and retail trades, and a 50-hour workweek for all other workers. Overtime is limited by law to 120 hours annually.

The labor act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor, providing a high standard of worker health and safety. The government is in the process of completely revising the labor law dating from 1948. It plans to abolish the ban on night and Sunday work for women in industry. Instead, it proposes to introduce provisions which will ensure adequate working conditions for all workers, male and female, who are employed on night shifts. These provisions will include specific measures designed to protect their safety and health, assist them to meet family and social responsibilities, and provide appropriate compensation. There were no allegations of workers' rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments.*—Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		629
Total Manufacturing		1,923
Food & Kindred Products	(1)	
Chemicals and Allied Products	234	
Metals, Primary & Fabricated	132	
Machinery, except Electrical	303	
Electric & Electronic Equipment	(1)	
Transportation Equipment	10	
Other Manufacturing	594	
Wholesale Trade		9,482
Banking		1,791
Finance/Insurance/Real Estate		17,823
Services		1,156
Other Industries		98
TOTAL ALL INDUSTRIES		32,901

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

TAJIKISTAN

Key Economic Indicators

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP Growth (pct.)	−76.4	−28.0	N/A
GDP (at current prices)[2]	279.2	305.7	251.7
By Sector:			
Agriculture	217.0	116.4	9.4
Energy (bil. KWHs)	16.3	17.7	13.8
Manufacturing[3]	207.0	378.6	506.7
Construction	16.5	17.8	14.4

Key Economic Indicators—Continued

	1992	1993	1994[1]
Rents	N/A	N/A	N/A
Financial Services	13.5	13.6	20.0
Other Services	0.53	0.40	0.20
Government/Health/Education	59.5	43.6	34.8
Net Exports of Goods & Services	−11.1	−25.0	−28.8
Real Per Capita GDP (USD)	267.5	26.6	N/A
Labor Force (millions)	1.86	N/A	1.40
Unemployment Rate (pct.)	4	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2/bil. rubles)	15.3	145.2	130.0
Base Interest Rate[4]	N/A	N/A	N/A
Personal Saving Rate	14	14	60
Retail Inflation	406.6	555.4	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	823.2	1,065.0	110.8
Exchange Rate (USD/ruble)			
Official	188.0	2,064.3	2,287.0
Parallel	188.0	2,064.3	2,287.0
Balance of Payments and Trade:			
Total Exports (FOB)[5]	55.9	97.2	241.5
Exports to U.S.	N/A	6.8	5.5
Total Imports (CIF)[5]	12.6	122.2	269.7
Imports from U.S.	71.9	3.9	12.9
External Public Debt	787.0	1,021.0	1,461.7
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	N/A	N/A
Trade Balance[5]	−39.4	57.3	−70.1
Trade Balance with U.S.	−71.9	2.9	−7.4

Note: Reliable income, production and employment, money supply and balance of trade data are not available in Tajikistan. While a country memorandum was produced by the World Bank in April 1994, even that document notes the unreliability of data due to inaccuracies in government accounting methods and poor government information collection. The figures provided, a combination of both government and World Bank data, should be used with caution and primarily as a basis for comparison.

N/A—Not available.

[1] 1994 figures are all estimates based on available monthly data in October 1994.

[2] GDP at factor cost.

[3] Includes the cost of material expenses-net figures not available.

[4] Figures are actual, average annual interest rates, not changes in them.

[5] Merchandise trade.

1. General Policy Framework

The severing of trade links with the countries of the former Soviet Union (FSU) after the breakup of the USSR, continuing uncertainty over Tajikistan's entry into the Russian ruble zone and the complete shutdown of all inter-republican banking payments have exacerbated a situation already in crisis after two years of civil conflict and natural disasters. The economy continued to contract sharply throughout 1994, affecting even the industrialized, highly productive region of Leninabad in the north. Some estimates put 1994 industrial production at no more than 30 percent of 1988 levels and in some sectors, such as construction, estimates are even lower. The collapse of domestic production has led to an almost total dependence upon imports of consumer goods, particularly grain, to the exclusion of capital goods and investments.

While the government has taken some steps toward reform, these have been to a large extent legislative exercises, with no active implementation or enforcement. A governmental preoccupation with political stability combined with the entrenched bureaucratic opposition to reform made the economy, however dire the situation, a lesser priority. In addition, no resolution could be reached regarding the establishment of a separate Tajik currency until the political situation stabilized. Approximately 90 percent of the economy remains government-controlled and that which has been privatized has gone, in the majority of cases, into the hands of the work collective of that particular enterprise. The government further restricted the market in Tajikistan by increasing the state orders for cotton and aluminum and limiting the issuance of export licenses.

Tajikistan's adoption of the Russian ruble as its official currency without integration into the ruble zone has led to a situation whereby Tajikistan is completely dependent upon the largesse of the Russian Federation in order to obtain bank notes. This untenable situation has been precariously maintained throughout 1994, although there is some hope that the government elected in November 1994 may take more aggressive steps to resolve the current crisis.

The money supply has shrunk to the point that the economy has reverted to a barter system, particularly in rural areas. Salary and pension payments lag months behind and workers are paid on account as the liquidity of the Tajik economy is completely dependent upon the delivery of ruble notes from Russia. The reliance on imports together with the decline in domestic production have led to the flight of rubles out of Tajikistan almost as soon as they arrive. Agreement has not yet been reached with the Russian Federation on the rate of exchange for pre–1993 rubles and hence all previously held currency is literally frozen in bank accounts and not convertible. The government's debt to the population for salary and pension payments in the first half of 1994 was over 220 billion rubles.

Tajikistan's massive debt, totaling over $440 million or 31 percent of GDP for the first half of 1994, is financed for the most part by credit from the National Bank. Inflation has remained fairly constant, even dropping over the summer, due to the extreme shortage of banknotes in circulation. Government expenditures are largely for grain, the supply of fuel and raw materials for industry, and expenditures for the military which is maintained in response to attacks both along the Tajik-Afghan border and against pockets of opposition resistance within Tajikistan. In addition, the government still subsidizes inefficient state enterprises and provides subsidized prices for food, fuel and other consumer items. While the government remains dependent on the Russian Federation for about 80 percent of its trade and 14 percent of its budget, 1994 saw the successful shift of a large proportion of Tajik exports to Western partners, particularly in cotton and aluminum.

In 1994, virtually all of the aid which Tajikistan received continued to be devoted to humanitarian assistance rather than technical or development assistance or concessional financing. The World Bank donor conference scheduled for February was postponed in September. Uncertainties remain and hence reconstruction loans valued at $20 million which were to have become available in 1994 have been put on hold pending resolution of Tajikistan's fundamental questions of political stability and viable currency. In November 1994, however, the European Bank for Reconstruction and Development decided to initiate a limited technical assistance project in the banking sector. The bulk of the proposed technical assistance projects, however, have yet to find donors.

2. Exchange Rate Policy

Tajikistan is the only FSU state that still has the Russian ruble as its national currency. On January 5, 1994, Tajikistan officially exchanged all of its old Russian rubles for new 1993 rubles. Exchange rates in Tajikistan are tied to the MIREX rate in the Russian Federation and are adjusted bi-weekly. The government maintains only one official exchange rate. This tracks fairly closely with the unofficial or black market rate, differing only by 100 to 200 rubles. Delayed entry into monetary union with the Russian Federation resulted in an acute cash shortage which is becoming increasingly severe with the passage of time. Unfortunately, with the conversion to new Russian rubles, the Russian Federation and Tajikistan did not agree upon an official exchange rate for the new and old rubles and this issue is still outstanding between the two countries. The Government of Tajikistan has shied away from introducing a national currency; this decision as prolonged the economic crises and complicated decisionmaking.

The introduction of the new Russian ruble without Tajikistan's entry into the ruble zone has further resulted in a segmentation of the money supply. The scarce cash component is made up of Russian currency which is internally and externally convertible into cash or goods. Enterprises are charging as much as ten times the asking prices for purchases made by non-cash transactions. The result of this impasse is that all "old" money deposited in accounts at the time of the ruble changeover has been, in effect, "frozen" and is inaccessible to both enterprises and individuals. Throughout 1994, wages routinely lagged six months behind, and often as much as eight to ten months.

The impact of Tajikistan's exchange rate policies upon U.S. exports is slight for the simple fact that there is little substantial trade between the two countries. Government requirements for the sale of hard currency to the government hard currency fund remain. Depending upon the export product, exporters are technically required to sell between 30 and 70 percent of their hard currency earnings to the fund. The rate of exchange, however, has been changed to match the market rate

and is adjusted bi-weekly to coincide with the official rate. The percentage of profit that must by law be exchanged varies according to the percentage of the enterprise owned by the foreign entity.

3. Structural Policies

1994 has seen an unfortunate acceleration of the continuation of the return to centralized economic planning in Tajikistan. The government announced a new foreign trade regime which concentrates virtually all export activity in the Ministry of Foreign Economic Relations. This ministry has the exclusive right to issue export licenses in accordance with quotas issued by the Ministry of Economy for all export products, of which cotton and aluminum are the two main strategic resources. The impact of this legislation falls primarily upon U.S. joint ventures or producers doing business in Tajikistan.

The new government came to power on a platform which clearly stated the necessity to restrict imports of hard liquor, tobacco products, and cotton oil. There was also a call for the regulation of all food prices. In November, however, Tajikistan adopted a new constitution which codifies, for the first time, the right of the individual to own property. This could provide for the intensification of privatization efforts, particularly in agriculture.

Since 1992, Tajikistan has enacted numerous laws aimed at broadening its economic reform efforts. These laws have not yet been effectively implemented for a number of reasons, chief of which is the lack of political will among both the government's top leaders and mid-level functionaries. Tax policy in Tajikistan was substantially revised in 1994, with an overhaul of the tax code and an attempt to increase tax revenue by the imposition of several new taxes.

4. Debt Management Policies

Tajikistan is a signatory to the zero-option accord with the Russian Federation and is thus not liable for its share of the debts of the former Soviet Union.

Estimates from the Ministry of the Economy place Tajikistan's budget deficit at over $440 million or 31 percent of GDP. This debt is financed for the most part by the National Bank, but Tajikistan has also borrowed on unfavorable terms in the world markets. Russia is Tajikistan's primary creditor, with current debts totaling $127 million. The Russian Federation supplied Tajikistan with a 120 billion ruble loan in January as well as a second tranche of 30 billion rubles in October. Technical credits valued at 80 billion rubles are promised but have not yet been delivered. These loans were guaranteed by Tajik assets in the form of major industrial enterprises. As of July 1994, debts to Kazakhstan totaled $22.3 million while debts to Uzbekistan topped $96 million. Russia has postponed Tajikistan's repayment of the loans until January 1, 1996, but Tajikistan must repay $10.73 million to Uzbekistan and Kazakhstan in 1994. Other debt includes $27.5 million in P.L. 480 concessional food credits, $50 million in Turkish commercial credits, and $5 million each in Chinese and Indian commercial credits.

5. Significant Barriers to U.S. Exports

Tajikistan has several serious barriers to U.S. exports, but these are more related to geography and the general economic crisis than any deliberate targeting of U.S. goods and services. Tajikistan's geographical isolation, devastated economy and, most importantly, lack of a national currency, severely undermine Tajikistan's ability to trade effectively, even with neighboring CIS states. Interest in U.S. products is precluded by the lack of banking transfers or cash payments with which to purchase them. Yet another contributing factor is a business culture in Tajikistan which emphasizes personal contacts over competitive bidding. In general, legislation encourages foreign investment but contradictory decrees and a newly expanded tax burden make doing business in Tajikistan a complex process.

The government conducts virtually all trade in Tajikistan. Fine fiber cotton and aluminum are the two main sources of government hard currency and trade deals are characterized by the amount of tonnage the government has allocated. The government trade association "Somonion" is given an annual quota of cotton and aluminum to sell in exchange for grain, medicine and consumer goods. With some effort, foreign investors are able to negotiate very favorable deals with the government and can receive benefits such as tax relief, long-term land leases and resource allocations without which it would be exceedingly difficult to do business in Tajikistan.

6. Export Subsidies Policies

Tajikistan is not a member of the GATT export subsidies code. Tajikistan retains to a large extent the Soviet practice of indirect subsidies through inefficient socialist pricing mechanisms. In the case of aluminum, a major export, concrete data is dif-

ficult to obtain, due to the common practice of dealing through a third party or country. U.S. Department of Commerce figures, however, claim that Tajikistan accounts for approximately one percent of aluminum imports to the United States. Subsidized government rates for energy (both gas and electricity) and other operating and raw material costs, give aluminum produced in Tajikistan a distinct advantage over aluminum produced in the United States or elsewhere.

In general, though, the government of Tajikistan has only limited opportunity to use export subsidies as a means of providing either direct or indirect support for exports—a situation exacerbated by the economic crisis. That notwithstanding, the government is publicly committed to supporting export-oriented state enterprises, chiefly by the provision of scarce financing and government credits. These credits have gone largely to the agriculture, energy, mining and textile sectors.

7. Protection of Intellectual Property

Protection of intellectual property is not a high priority of the Government of Tajikistan, but neither is the need for protection very severe. While many laws designed to protect intellectual property rights already exist, the government has limited means by which to enforce them. Piracy of video and audio cassettes which are brought in from neighboring CIS countries is the most common abuse of intellectual property. There is no evidence that Tajikistan exports any locally produced pirated goods. The small amount of piracy which occurs in Tajikistan has a negligible effect, if any, on U.S. exports.

However, Tajikistan is undertaking the appropriate measures to align itself with international intellectual property rights standards. Tajikistan is a signatory to the Universal Copyright Convention. The copyright agency created by the government has little knowledge as to how best to approach its task, and as yet its committee is not very active. On February 14, 1994 Tajikistan became a member of the World Intellectual Property Organization (WIPO). In 1993, the government created a national patent information center. This center is charged with the preparation of legislation required to enter into international covenants. In February 1994, the government enacted legislation on the regulations governing inventions, utility models and industrial samples. These regulations cover the creation, legal protection and use of the above. Tajikistan also maintains a state standards agency, which has the main responsibility for trademarks.

8. Workers Rights

a. *The Right of Association.*—All citizens are guaranteed the right of association. Also guaranteed is the right to form and join associations without prior authorization, to organize territorially, to form and join federations and affiliate freely with international organizations, and to participate in international travel.

The Confederation of Trade Unions, a holdover from the Communist era, remains the dominant labor organization, although it has since shed its subordination to the communist party. The Confederation consists of 20 individual trade unions and currently claims to have 1,500,000 members - virtually all non-agricultural workers. The separate labor union of private enterprise workers has registered 3,241 small and medium-sized enterprises, totaling 60,000 members, some of whom have dual membership in the Confederation. Both labor unions are formally consulted by the Council of Ministers during the drafting of social welfare and worker rights legislation.

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 Contract and the Law on Labor Protection. Although collective bargaining is guaranteed by law, as the economic situation declines, enterprises are finding it increasingly difficult to engage in effective collective bargain. Any anti-union discrimination or the use of sanctions to dissuade union membership is prohibited.

c. *Prohibition of Forced or Compulsory Labor.*—Neither the Law on Labor Protection nor the Law on Employment specifically prohibit forced or compulsory labor. However, these laws do provide that a person has the right to find work of his or her own choosing. This principle is enforced in the local trade union structure by the labor inspectors. The Soviet practice of compelling students to pick cotton was officially banned in 1989. However, due to the lack of fuel and mechanical harvesting equipment in the fall of 1994, students were again sent to the fields to pick cotton as they were in 1993.

d. *Minimum Age for the Employment of Children.*—According to labor laws, the minimum age for the employment of children in Tajikistan is 16, the age at which children may legally leave school. With the concurrence of the local trade union, employment may begin at age of 15. Those less than 18 may not work more then six

hours a day and 36 hours a week. However, agricultural work, which is classified as "family assistance," is routinely done by children as young as seven. Trade unions are responsible for reporting any violations involving the employment of minors.

e. *Acceptable Conditions of Work.*—The legal workweek for adults (over age 18) is 40 hours, with a 48 hour rest period. Overtime payment is mandated by law with the first two hours of overtime to be paid at one and one half times the normal rate and the remaining overtime at double time. The government has established occupational health and safety standards, but these fall far short of international norms and are not actively enforced. Relative to former Soviet standards, however, it is virtually certain, given the continuing economic decline, that the one-fifth working in substandard conditions reported in 1993 greatly underreports the number working in substandard conditions in 1994 (although reliable new statistics are not available). There are occasional reports of armed militia forcing villagers to perform agricultural work on private plots. There are no known instances of the use of child labor, other than in the case of picking cotton.

f. *Rights in the Sectors with U.S. Investment.*—There is no significant U.S. investment in Tajikistan.

TURKEY

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1987 prices)	104,440	112,254	107,988
Real GDP Growth (pct.)	6.0	7.5	−3.8
GDP (current prices)	158,735	174,144	N/A
By Sector:			
Agriculture	23,784	25,045	N/A
Energy/Water	4,152	4,683	N/A
Manufacturing	34,346	37,539	N/A
Mining/Quarrying	2,170	1,986	N/A
Construction	10,817	12,357	N/A
Dwelling Ownership	5,984	6,206	N/A
Financial Services	6,314	7,145	N/A
Other Services	48,939	52,680	N/A
Government/Health/Education	16,237	18,562	N/A
Net Exports of Goods & Services	−4,687	−10,228	N/A
Real Per Capita GNP (USD 1987)	1,802	1,896	N/A
Labor Force (000s)	21,015	20,196	N/A
Unemployment Rate (pct.)	7.9	7.6	8.3
Money and Prices (annual percentage growth):			
Money Supply (M2/TL trillions at mid-year)	143.3	224.5	469.3
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	21.3	21.3	N/A
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	62.1	58.4	116.0
Consumer Price Index	71.1	66.0	N/A
Average Exchange Rate (TL/USD)	6,888	10,986	31,000
Balance of Payments and Trade:			
Total Exports (FOB) [3]	14,715	15,349	17,500
Exports to U.S.	865	986	1,450
Total Imports (CIF) [3]	22,871	29,428	24,000
Imports from U.S.	2,601	3,351	2,280
Aid from U.S.	528	578	526
Aid from Other Countries	N/A	N/A	N/A
External Debt	55,592	67,360	65,000
Debt Service Payments (medium & long-term/paid)	6,494	8,085	6,895

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Gold and FOREX Reserves (mid-year) 12,355 ...	17,429	15,254	
Trade Balance[3] ...	−7,440	−14,079	−6,500
Trade Balance with U.S. ...	−1,736	−2,365	−830

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GNP 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 1993, Turkey's seven percent real gross national product (GNP) growth rate was the highest of any OECD country.

The Turkish government's inability to limit burgeoning fiscal deficits and high transfers to inefficient state economic enterprises, however, led to an economic crisis in early 1994. From January to April, the Turkish Lira depreciated 135 percent against the dollar and inflation rose to a record 33 percent for the month of April. Interest rates also skyrocketed to record levels as the Central Bank of Turkey attempted to combat exchange rate fluctuations by increasing interbank rates. The overnight rate briefly exceeded 1000 percent at the heart of the crisis.

The Turkish government implemented an austerity program on April 5 and signed a standby agreement with the IMF in July. The government curbed expenditures sharply and reduced inflation in the months immediately following the program's implementation. Recession followed and real GNP will decline by approximately four percent in 1994. The Turkish government has committed itself to structural reforms in the area of privatization, social security and taxation, but had made no progress in these areas by the end of October 1994.

Inflation, Growth: Inflation, fueled by massive public sector deficits, worsened in 1994. In 1993 consumer prices (CPI) increased by 71 percent, four points higher than in 1992. The CPI rose 111 percent in the twelve months ending September 30, 1994, with wholesale prices increasing by 130 percent during the same period.

The Turkish economy contracted by nearly eleven percent in the second quarter of 1994 (compared to the second quarter of 1993) as the austerity program took effect. The economy has demonstrated a remarkable dynamism in the second half of the year and a surge in exports indicated the economy was beginning to recover. The nine-month balance sheets of Turkey's large companies also show high profit margins in apparent contradiction of the contraction in national economic activity.

Fiscal Policy: The Turkish government limited current expenditures significantly in the months immediately following the implementation of the austerity program. As the end of 1994 approached, however, expenditures again outstripped revenues and tax receipts. In 1993 the public sector borrowing requirement (PSBR) reached a record 16 percent of GNP. The PSBR includes the borrowing requirements of budgetary departments, state economic enterprises (SEEs), and off-budget funds. The government continues to incur sizable debt to pay current expenses, finance major infrastructure projects, and to support the SEEs. Both major rating agencies have lowered Turkey's country risk rating to below investment grade, forcing the government to rely entirely on domestic borrowing and advances from the Central Bank to finance its deficits.

Monetary Policy: Turkey's Central Bank has not published a monetary policy since 1992. In early 1994, the Central Bank focused on foreign exchange rates, attempting to limit exchange rate volatility through regular interventions in the currency and open money markets. Since the implementation of the April 5 austerity program, the Central Bank has limited its interventions in currency markets. The Central Bank does not use interest rates as a tool against inflation, conceding control of interest rate policy to the Turkish Treasury.

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 ex-

change rate fluctuations and to provide liquidity during extraordinary events (e.g. the Gulf War and the January–April 1994 financial crisis).

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 1993, the TL appreciated by about three percent in real terms. The TL declined by 135 percent against the dollar in the first nine months of 1994. The Government of Turkey expects real depreciation of the TL in 1994 will be 19 percent.

3. Structural Policies

Since 1980 Turkey has made substantial progress in implementing structural reforms and liberalizing its trade and foreign exchange regimes. In contrast, the Turkish government has moved forward marginally in privatizing the SEEs, which account for some 35 percent of manufacturing value added. Government transfers to SEEs constitute a substantial drain on the economy. 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 increase. The April 5 austerity program, accompanied by the sharp devaluation of the lira, dampened import demand in 1994.

Turkey's largest source of imports in 1993 was Germany, which accounted for 15 percent of total imports, followed by the United States, with 13 percent. In the first eight months of 1994, total imports declined by 23 percent. The Turkish government estimates that imports will decline to $24 billion in 1994, from $29 billion in 1993, although most analysts anticipate a rebound in 1995 as the economy begins to grow again. Imports from the United States declined by 32 percent during the same period, resulting in a U.S. trade surplus of $633 million from January to August.

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) by January, 1996. This should result in generally lower tariffs and fees on U.S. imports than those currently in effect. Turkey will reduce its tariff schedule in two stages during the course of 1995 in order to eliminate all customs duties for EU countries and bring it in line with the CET.

4. Debt Management Policies

At year-end 1993 Turkey's gross outstanding external debt was $67 billion—an increase of $12 billion over 1992. Debt service obligations for 1994 increased from $6.8 billion in 1993 to $8.5 billion. Turkey has had no difficulty servicing its foreign debt, and the current account may achieve a surplus of approximately $2 billion in 1994. Turkey's official external debt payments will only increase by about $500 million in 1995, but total external debt payments will exceed $11 billion.

The Turkish debt service ratio reached a high in 1988 when it equaled 35.6 percent of foreign exchange revenues. In 1994, the debt service ratio was 26 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 in 1993. Bilateral official lenders, principally OECD member countries, accounted for approximately 27 percent of Turkey's 1993 external debt. World Bank committments to Turkey total $3.6 billion, with $100 million in new credit approved in 1994. The IMF standby agreement signed with Turkey is for $720 million (SDR 509.3 million), which will be allocated in five quarterly tranches.

5. Significant Barriers to U.S. Exports

Import Licenses: While there is generally no requirement for government permission or licenses in the importation of new products, there is sometimes a problem introducing new foodstuffs and foodstuff ingredients. The Turkish government, however, does impose requirements for import licenses on agricultural commodities, depending on the domestic supply of various grains and foodstuffs. The Turkish government also requires certification that quality standards are 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. In 1993 the Import Regime 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 government's 1994 Import Regime continued efforts begun in 1993 to reduce import duties and harmonize Turkey's tariff system with that of the EU. Tariff 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. In 1996, as Turkey enters the Customs Union, tariffs for products from EU and EFTA countries will disappear altogether; Turkey will lower tariffs on third-country products to the EU's Common External Tariff.

The Turkish Government has imposed restrictive non-tariff barriers on agricultural commodities, particularly high value livestock and meat products. The representatives of U.S. food industry companies which wish to expand their investment in Turkey have expressed concern over this trend.

Government Procurement Practices/Countertrade: Turkey normally follows competitive bids procedures for domestic, international and multilateral development bank-assigned tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding/negotiating processes. Some tenders, especially large projects involving coproduction, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers." In some cases, years have passed without the selection of a contractor.

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 United States and Turkey exists, this can significantly add to the cost of U.S. bids, making them non-competitive. U.S. and Turkish negotiations on a bilateral tax treaty are ongoing and an agreement may be reached in 1995.

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-Turkey Bilateral Investment Treaty entered into force in May 1990. The treaty guarantees MFN treatment on establishment, and the better of MFN or national treatment after establishment, 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.

6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, including export credits and a variety of tax incentives. 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 VAT.

In 1994, the government reviewed its subsidy programs for consistency with the GATT and EU standards. As a result, it will phase out a number of programs, including one which discriminates against foreign-flag shippers.

7. Protection of U.S. Intellectual Property

Turkey could strengthen its 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, 1993 and 1994 under the "Special 301" provision of the 1988 Trade Act. The EU has made adequate IPR protection a pre-condition to the Customs Union. The government has given assurances it will modernize its legislation, but the process has been painfully slow. The government has said it will abide by IPR standards agreed to in the Uruguay Round when the agreement goes into effect in 1995.

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 passed a law prohibiting computer software piracy. The Turkish government has submitted bills amending both the copyright and cinema and video laws to parliament, although both contain provisions unsatisfactory to U.S. industry.

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. The Turkish government presented new draft patent legislation to parliament in 1993, but as of October 1994 that body was still considering it. The draft legislation contains a ten year delay before pharmaceuticals would be covered.

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 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. The computer industry claims its losses exceed $100 million annually. 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. They cite loss of 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 officials to prepare new intellectual property rights draft laws.

8. Worker Rights

a. *Right of Association.*—Most workers have the right to associate freely and form representative unions. Teachers, military personnel, police and civil servants (broadly defined as anyone directly employed by central government ministries) 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. Nonbinding 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 International Labor Organization (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. The government has presented legislation to parliament, where it is still under discussion. 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. *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 of Employment for Children.*—The constitution prohibits work unsuitable for children, and current legislation forbids full time employment of chil-

dren 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 underaged children. In the informal sector, many children under 13 work as street vendors, in home handicrafts, on family farms, and in other enterprises.

e. *Acceptable Conditions of Work.*—The 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 nonwage benefits such as transportation and meal allowances and some also receive housing or subsidized vacations. In recent years fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors with U.S. Investment.*—Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		606
Food & Kindred Products	128	
Chemicals and Allied Products	142	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	7	
Transportation Equipment	113	
Other Manufacturing	71	
Wholesale Trade		23
Banking		98
Finance/Insurance/Real Estate		(2)
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,023

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

TURKMENISTAN

Key Economic Indicators

[Billions of manat unless otherwise noted]

	1992	1993	1994[2]
Income, Production and Employment:			
GDP (at current prices)[1]	302.0	13.2	222.5
By Sector:			
Agriculture[1]	44.3	1.8	42.4
Industry[1]	215.4	5.4	84.5
Electrical Energy[1]	9.0	0.4	7.2
Oil/Gas[1]	60.0	1.1	49.3
Construction[1]	25.6	2.0	57.8
Production/Non-Production Services[1]	16.7	4.0	37.8

Key Economic Indicators—Continued

[Billions of manat unless otherwise noted]

	1992	1993	1994[2]
Per Capita GDP (manat/at current prices)[3]	71,800	3,065	50,400
Labor Force (000s)	1,991.5	2,053.2	2,075.0
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	12.8
Base Interest Rate[4]	2–15	40–50	150
Personal Saving Rate[4]	10–40	4–50	20–160
Retail Inflation	8.1	18.7	15.8
Wholesale Inflation	10.9	17.1	5.1
Consumer Price Index	8.3	18.6	16.0
Exchange Rate: (USD/ruble)			
Official	N/A	2	10
Commercial	N/A	N/A	75
Balance of Payments and Trade:			
Total Exports (FOB/mil. USD)[5]	1,870.6	2,600.0	2,300.0
Exports to U.S. (mil. USD)	N/A	0.12	20.40
Total Imports (CIS/mil. USD)[5]	1,123	1,600	1,540
Imports from U.S. (mil. USD)	N/A	29.1	63.2
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[6]	N/A	288.2	180.0
Debt Service Payment (paid)	N/A	N/A	4.4
FOREX Reserves (bil. USD)	N/A	N/A	N/A
Trade Balance (mil. USD)[5]	747.6	1,000.0	760.0
Balance with U.S. (mil. USD)	N/A	−28.98	42.80

N/A—Not available.
[1] 1992 Figure in million rubles.
[2] 1994 Figures are all estimates based on available monthly data in October 1994.
[3] 1992 figure in rubles.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.
[6] Foreign credits.
Note: On October 1, 1994, attracted foreign credits consisted of $468.2 million for the 1993–94 period.
A new currency, the manat, was introduced on November 1, 1993. Since that time, as the following report will reflect, the rate of the manat has fluctuated so greatly as to make the conversion of domestic data to USD almost meaningless. At any one time there are three exchange rates: an official rate, a commercial rate, and a black market rate. Converting any given data into USD could reflect incorrect information.

1. General Policy Framework

Turkmenistan declared independence following a national referendum on October 27, 1991. Saparmurad Niyazov, head of the communist party since 1985 and president since the creation of the position in October 1990, 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 a strong president and his closest advisors within the Cabinet of Ministers. On January 15, 1994, a referendum was held which extended Niyazov's presidential term until the year 2002.

President Niyazov has declared his intention to develop a market economy while maintaining the state's role in sectors involving oil and gas, electrical energy, rail and air transportation, communications, information, education, science, health, and culture. Privatization began with a leasehold program for development of new agricultural lands by private farmers, which was approved by the government and put into effect in early 1993. In practice, undeveloped plots of land were distributed among those intending to grow agricultural products in exchange for forfeiting the right to freely sell or give away such products. Farmers must sell most of their crops to the state at fixed prices and do not own their land. There are currently 200 such landowners, each possessing no less than 50 hectare plots of land. The state has encouraged them through construction of irrigation systems, favorable tax and credit policies, etc. Niyazov also declared a small business privatization process, which began in December 1993, through auctions of state services and, later on, privatization of trade and public catering enterprises. Most of the enterprises are being

bought by labor collectives and individuals. The government claims that 818 enterprises were privatized by October 1, 1994. The Ministry of Economics and Finance is overseeing the privatization process which is expected to continue through 1996.

Turkmenistan's economy is highly dependent on the production and processing of energy resources and cotton. Natural gas provides 69 percent or $1,235 million of total exports. Energy reserves are estimated at 15.5 trillion cubic meters of natural gas and 6.3 billion tons of oil. Turkmenistan possesses large deposits of various minerals and salts, with indications of commercially exploitable gold, silver and platinum.

Despite this abundance of fuel and natural resources, agriculture accounts for nearly one-third of Turkmenistan's gross national product and more than two-fifths of the country's total employment. Cotton is the dominant crop, covering more than 45 percent of arable land and constituting 56 percent of total agricultural production. The 1994 target is to harvest 1.5 million tons through improved technology. Grain production is the second priority. Turkmenistan hopes to harvest one million tons of wheat in 1994. By 1996, Turkmenistan hopes to be self-sufficient in wheat production.

Turkmen farmers rely heavily on irrigation. Agricultural yields are 2–3 times lower than might be expected due to years of inefficient water use, salinization, inappropriate land irrigation, and over-development of cotton cultivation. The government has reduced the area occupied by cotton fields and encourages research into more efficient water usage. Water distribution among farmers is limited and strongly controlled by the state. The ration of water usage varies and is free of charge; however, extra supplies beyond the ration can be bought at low state-subsidized prices. Limited water resources do not allow development of the remaining 90 percent of this highly arid country.

Large scale specialization of agriculture creates a heavy reliance on food imports. 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. To reduce dependence on food imports, the government promotes domestic grain and sugar beet production and is investing in dairy and sugar processing plants and equipment.

As a member of the Commonwealth of Independent States (CIS), Turkmenistan is affected by the economic decline in neighboring countries. Non-payment from Ukraine and other CIS countries for natural gas deliveries led to reduced state investment activities. In turn, this caused production of GDP to decrease 25 percent compared with 1993. Payment defaults, primarily caused by currency non-convertability and lack of hard currency in CIS countries, make inter-republican trade much too complex, non-profitable and, thus, minimal. Turkmenistan continues to focus on clearing payments. Rail and road transport, pipeline routes, and shipping via Russia and other CIS countries remain the major export routes of Turkmen goods. Turkmenistan, Iran, and Turkey have signed a political agreement to build a gas pipeline through from Turkmenistan to Turkey via Iran. Financing, however, has not been secured, and may prove difficult due to political considerations. Turkmenistan and Iran are building a rail link between Serakhs and Meshed, which is scheduled for completion in 1996. The Government of Turkmenistan is also considering building a railroad through Afghanistan to Pakistan, but once again financing is a problem. The new international airport in Ashgabat is expected to reach full operation by the end of 1994.

Turkmenistan's 1994 budget was projected including hard currency payments owed for gas shipments by Ukraine and the Caucasus (in accordance with previously concluded agreements). Turkmenistan's tax base is quite small; in 1994 some 70 percent of budget revenue came from exports of natural gas. Payment defaults have left the budget in deficit. As a result, the government has had to toughen its financial policy by denying credits, reducing numerous construction activities, maintaining high percentage rates on foreign exchange surrenderings from state-owned enterprises, and strengthening control over budget expenditures. Forty percent of budget revenues are proceeds from a value added tax on goods and services. Twenty percent of budget revenues also come from a natural resources tax and 15 percent from a profit tax on gross profit. About 60 percent of budget expenditures go to support price subsidies and 7.3 percent is designated for defense purposes. The government also maintains a foreign exchange fund to control hard currency movement in and out of the country.

With respect to monetary policy, the main instruments of credit control include reserve requirements and refinance policy. In practice, the level of commercial bank access to central bank credit is determined by the Cabinet of Ministers. The government hoped that the establishment of foreign exchange auctions would introduce a more efficient financial market; however, this attempt failed due to a shortage of

hard currency. On August 1, 1994, the Commodity and Raw Material Exchange (CRME) was set up to regulate and control hard currency revenue from exports and imports. All CRME transactions are in manats; foreign buyers/sellers can exchange money through the Central Bank. Only transactions which take place through the CRME receive export licenses.

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, Iran, and Turkey. Turkmenistan became an observer to the GATT in June 1992.

The Uruguay Round agreements are not currently under discussion in Turkmenistan.

2. Exchange Rate Policy

On November 1, 1993 the government introduced a new national currency, the manat. The initial exchange rate was set at an unrealistic two manat = one dollar. The government also established a currency auction to assist in setting the exchange rate for the manat. However, due to limited foreign exchange availability, the last auction was held in May 1994. For purposes of trade with Russia, the manat, the dollar, and the Russian ruble are equally valid. The official manat/dollar exchange rate is determined by Turkmenistan's Central Bank. On April 15, 1994, the official foreign exchange rate was changed to ten manat = one dollar, where it has remained ever since. In an attempt to attract investors, commercial banks introduced a new commercial rate at sixty manat = one dollar. On August 15, 1994 the commercial exchange rate was raised to 75 manat to one dollar in connection with the establishment of the Commodity and Raw Material Exchange.

The government plans to reintroduce the foreign exchange auction once sufficient foreign exchange has been collected. The government is depending on the successful operation of the CRME to provide this hard currency to the Central Bank.

3. Structural Policies

The government is anxious to attract foreign investment to develop Turkmenistan's substantial energy, mineral, and agricultural resources. Laws concerning foreign investment, banking, taxation, foreign exchange regulation, and property ownership, which were passed in October 1993, are intended to create a legal commercial framework.

In 1993, the Khalk Maslakhaty (People's Council) created "economic zones of free entrepreneurship" in seven regions through Turkmenistan. These zones offer favorable taxation and production terms for private enterprises. According to Turkmenistan's tax laws, every enterprise is required to pay a 25 percent profit tax and a 20 percent value-added tax. Fifty percent of foreign exchange proceeds from the export of goods and raw materials, and 60 percent of the proceeds from gas exports, are surrendered to support the government's foreign exchange fund. Foreign investments are exempt from this export tax.

The government continues to regulate salaries. Following the introduction of the manat and the subsequent increase in inflation (about 23 percent by October 1994) the president announced a mandatory salary increase effective July 1, 1994. The minimum and average salaries were set at between 250 and 1,200 manat per month. Pensions, stipends, and allowances were also increased slightly.

The government also continues to control prices for staples, medicines, rent, public transportation services, and some production costs. Price liberalization, which began in 1992, is expected to continue. Only 50 to 60 kinds of products will be subsidized in 1995, at which time the remainder of prices will be freed.

4. Debt Management Policies

In the "zero-option" agreement signed with Russia on July 31, 1992, Russia assumed all of Turkmenistan's former Soviet Union (FSU) debt obligations, while Turkmenistan surrendered all claims to FSU assets.

Turkmenistan currently faces difficulties collecting hard currency payments for gas deliveries to Ukraine and the Caucasus. The overall debt of these countries to Turkmenistan is $1.5 billion. Despite these payment problems, Turkmenistan is forced to continue supplying these countries with gas due to pipeline and storage constraints and a lack of other options. Turkmenistan hopes that the IMF agreement with Ukraine, and the expected economic improvement in Ukraine's economy, will result in Ukraine resuming hard currency payments to Turkmenistan.

Turkmenistan purchased $10 million worth of PL–480 Title I wheat in FY 1993 and 1994. Turkmenistan also took advantage of $5 and $10 million in GSM–102 credits which were granted in FY 93 and 94, respectively. A new FY 95 Title I agreement is currently under consideration by the government. Turkmenistan has also concluded long-term credit deals with American, European and Turkish compa-

nies, the European Bank for Economic Development, and the Iranian government. The World Bank is exploring a proposed $25 million credit extension to Turkmenistan in order to strengthen Turkmen economic potential.

5. Significant Barriers to U.S. Exports

Turkmenistan's lack of a freely convertible currency, absence of an efficient banking system, rudimentary business infrastructure, and centralized decision-making system all present obstacles to U.S. exports. With Russia and the other CIS countries, a clearing arrangement exits. But even with these neighbors, trade remains based primarily on the barter system. To normalize its trade and investment with Turkmenistan, the United States concluded the first of a series of bilateral economic agreements in 1993. In October 1993, a Bilateral Trade Agreement, which provides reciprocal most favored nation status, went into effect. To date, numerous U.S. companies are involved in feasibility studies and contract discussions. Approximately eight U.S. firms have permanent representatives resident in Turkmenistan.

Discussions on a U.S.–Turkmenistan bilateral investment treaty, which would establish a bilateral legal framework to stimulate investment, continued throughout 1993–1994. The United States has also proposed a bilateral tax treaty, which would give 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 currently in force.

6. Export Subsidies Policies

The government provides substantial subsidies to state enterprises, including transportation and communications, which support production and employment. Subsidies also are focused in the export-oriented energy sector.

7. Protection of U.S. Intellectual Property

A law on the protection of intellectual property was signed by President Niyazov in September 1992. The law is designed to provide adequate protection, although enforcement is untested. A copyright law, effective October 1993, was also approved. The U.S.–Turkmenistan trade agreement contains commitments on protection of intellectual property.

8. Worker Rights

a. *The Right of Association.*—The government restricts the freedom of peaceful assembly. Unregistered organizations, including all political groups critical of government policy, or any of those with a political agenda, are not allowed to hold demonstrations or meetings. Citizens theoretically have the right to associate; however, such action may result in being fired from a job and/or having one's home and other property confiscated.

b. *The Right to Organize and Bargain Collectively.*—Turkmen law does not protect the right to organize and bargain collectively. The government continues to prepare guidelines for wages and specifically sets wages in some, though not all, sectors. In other areas, there is some leeway. The predominantly state-controlled economy seriously limits the worker's ability to bargain collectively.

c. *Prohibition of Forced or Compulsory Labor.*—Turkmenistan's constitution forbids forced or compulsory labor.

d. *Minimum Age of Employment of Children.*—The minimum age for employment is 16, with the exception of working in a few heavy industries, in which case it is 18. While the average work day is eight hours, those between the ages of 16 and 18 are not permitted to work more than six hours per day. Fifteen-year old children may be allowed to work with the consent of their parents and the trade union. In such cases, which are rare, they work four to six hours per day. Violations of child labor laws occur in rural areas during the cotton harvest season.

e. *Acceptable Conditions of Work.*—The national minimum wage is set quarterly and continues to fall far short of the amount required to meet the needs of an average family. Turkmenistan inherited an economic system and sub-standard working conditions from the Soviet era, when productivity took precedence over the health and safety of workers. Industrial and agricultural workers are particularly exposed to unsafe environments. The government recognizes that problems exist, but has not moved effectively to deal with them.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment in goods-producing industries continues to be very limited in Turkmenistan. To date, one investor is planning the construction of two cotton processing facilities. There is no indication that, once in operation, the conditions of work, or rights, will be different in these facilities than those in other industries.

UKRAINE

Key Economic Indicators

[Billions of karbovanets unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP Growth (pct.) [2]	−17.0	−14.2	−34.0
Nominal GDP (trillions kbv) [2]	4.09	153.00	[3] 1,055.0
Labor Force (millions)	24.4	24.5	N/A
Unemployment (000s)	70.5	83.9	125.8
Unemployment Rate (pct.)	N/A	0.18	0.77
Money and Prices: [4]			
Personal Savings Rate (pct.)	28.5	N/A	N/A
Retail Inflation (pct.)	2,100	10,300	210
Wholesale Inflation (pct.)	4,230	9,770	N/A
Consumer Price Index	2,100	10,258	N/A
Exchange Rate (KBV/USD/end of period)			
Official	638	12,610	44,000
Parallel	N/A	31,970	[5] 90,000
Balance of Payments and Trade: (USD millions, unless otherwise noted)			
Total Exports (USD billions) [2]	11.3	14.9	N/A
Exports to U.S.	75	132	[6] 295
Total Imports (USD billions) [2]	11.9	16.6	N/A
Imports from U.S.	156	272	[6] 193
Aid from U.S.	N/A	330	700
Foreign Exchange Reserves	N/A	[7] 207	N/A
Trade Balance	N/A	510.6	−123.7
Trade Balance with U.S.	−81	−140	[6] 102

N/A—Not available.
[1] 1994 Figures are nine-month data unless otherwise marked.
[2] IMF statistics.
[3] IMF staff estimate for 12-month period.
[4] Ukrainian Ministry of Statistics, 1994.
[5] As of October 20, 1994.
[6] 1994 Figures are estimates based on January-October data.
[7] Ukrainian Ministry of Finance, 1993.

1. General Policy Framework

Ukraine declared independence on August 24, 1991, and the population overwhelmingly ratified this 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, and the third largest in terms of area. Stretching across 603,700 square kilometers, it has a population of 52 million, 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, for the past three years Ukraine has faced inflation and a declining economy. The decline of production in most sectors of the economy continues, though the rate of contraction appears to have slowed in some spheres. In 1992 and 1993 market oriented reforms were implemented at a slow and half-hearted pace. Ukrainian officials appeared determined to move towards an efficient economy without creating social upheaval and a decline in the standard of living, even if it included a reliance on central administrative planning. Unfortunately, this policy produced a decrease in industrial production, spiralling inflation, little privatization, and overall economic gridlock. In 1993, attempts at stabilizing the economy were overwhelmed by the weight of collapsing production, ruptured trade links within the former Soviet Union, and the lack of political will within all levels of the national government.

In 1994 the economic situation in Ukraine remains grim, but the policy outlook has brightened considerably. Country-wide elections, which produced a new President, Parliament and every governor and mayor in the nation, helped provide new

thinking and fresh ideas. Ukraine has now unambiguously signaled its determination to embark on a comprehensive economic reform program. President Leonid Kuchma's October 11, 1994 address to the Ukrainian Parliament registered a welcome and drastic change in economic policy. Ukraine is committed to unifying its exchange rates, reforming the tax and banking systems, liberalizing prices, reducing inflation, eliminating subsidies, lifting export and currency controls, attracting more foreign investment, speeding up privatization efforts, and cutting the budget deficit. On October 27, 1994, the International Monetary Fund announced the approval of a $371 million Systemic Transformation Facility loan to help implement the first stage of this radical economic reform program.

2. Exchange Rate Policies

For the past two years Ukraine has utilized a system of multi-use, legal tender coupons as a response to two problems: a complete cut-off in the supply 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 (KBV), became the sole legal unit of currency in 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 currency, the Ukrainian hryvnia, can be introduced in 1995.

On August 23, 1994, President Kuchma issued a decree "On Improvement of Currency Regulation" under which the official exchange rate was to be brought closer to its true market value by year-end 1994 in order to stop the sharp slide of the KBV. This decree also reduced the proportion of hard currency earnings businesses must sell to the state to thirty percent, down from fifty percent originally mandated. On October 1, 1994, the interbank auction market for foreign exchange was reopened. The official rate for the surrender of foreign exchange was abolished on October 21; in addition, the government tender committee, which previously allocated foreign currency, was disbanded. The exchange rate is now unified and the rate is determined in the inter-bank market. The government will obtain the foreign exchange it needs in the auction at the unified rate.

3. Structural Policies

To date the Ukrainian privatization process has proceeded unevenly, not so much due to lack of a legislative base but to a lack of political will. For example, in the housing sector, 23 percent of all eligible dwellings have been privatized to date. The privatization of small-scale enterprises continues in several cities including Kharkiv, Zaporizhiya and Luhansk, but most other enterprise privatization has come to a halt due to a parliamentary review of the privatization process begun in late summer 1994. However, President Kuchma has outlined an ambitious privatization strategy for 1995, including completion of small-scale privatization throughout the country and privatization of some 8,000 medium and large-scale enterprises. The Ukrainian government has approved the use of a privatization certificate, which will be distributed free of charge to enable all Ukrainian citizens to take part in mass privatization beginning in 1995.

In 1993, Ukraine's tax policies were one of the most difficult elements in the business environment. High tax burdens, unclear legislation, and a multitude of different taxes caused confusion and increased tax evasion. In response to heavy criticism from the business sector, both state-owned and private, the government and parliament have agreed to a comprehensive reform of tax policy to ensure it stimulates investment and productivity rather than suffocates business. Most joint ventures are shielded from income tax by Ukrainian legislation which offers tax holidays to qualified investments.

Until October 1994, the Ukrainian government maintained price controls on approximately 17 percent of production. However, in October 1994, the government liberalized prices for all but a few specific items including the output of natural monopolies. Prices for certain communal services have increased and further increases are expected through 1995.

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's management responsibility for Ukraine's share of the debt, pending a bilateral agreement to resolve outstanding issues. The protocol was terminated on December 31, 1992 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 with the west, but an increasingly large debt with Russia and Turkmenistan for deliveries of oil

and gas. According to Ukrainian statistics, the officially acknowledged debt is $2.71 billion to Russia and $855 million to Turkmenistan. 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

The single most important barrier to trade and investment in Ukraine is the country's painful transition from a command economy to one based on market economics. As a result, successful export and investment activity in Ukraine requires a long term outlook and strategy, as well as a "frontier mentality."

Ukraine's shortage of hard currency earnings, underdeveloped and inefficient banking system, poor communications infrastructure, and lack of legal, shipping and other key infrastructure are the most significant impediments restricting U.S. exports to Ukraine. These barriers are further worsened 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 European Union standards. In the interim, Ukraine's domestic production standards and certification requirements are based on those of the former Soviet Union and 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.

Imported goods are not considered to have legally entered Ukraine until they have been processed through the port of entry and been cleared by Ukrainian customs officials. Duties on goods imported for resale are subject to varying ad valorem rates and import license requirements.

Ukrainian law allows for virtually all forms of foreign direct investment, including wholly-owned subsidiaries. In fact, Ukraine has attempted to encourage foreign investment through a "State Program for Encouraging Foreign Investment," which extends the length of existing tax holidays and import duty exemptions to qualifying investors in a number of priority sectors. However, the depressed local market and numerous tax disincentives weigh heavily on foreign investors. In addition, U.S. companies, under the Foreign Corrupt Practices Act, are often at a significant disadvantage in the Ukrainian business environment where bribery and corruption can be common tools of business.

It is important to note that the Kuchma government's new export liberalization policies, attempts at overall financial stabilization and proposed tax policy reforms are welcome changes that should attract more foreign investors to Ukraine.

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. Furthermore, this agreement provides for the establishment of the Joint Commission on Trade and Investment (JCTI), which held its inaugural session on November 23, 1994. The Commission will work to reduce barriers to trade and investment and promote expansion of commercial relations.

6. Export Subsidies Policies

For the first nine months of 1994 government subsidies to state-owned industries were an integral part of Ukraine's economy. These subsidies were not 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. However, in October 1994, in order to reform on the macroeconomic level, Ukraine agreed in principle to International Monetary Fund recommendations to cut these subsidies. As a result of these recommendations and price liberalization measures, all government subsidies were drastically reduced.

7. Protection of U.S. Intellectual Property

A new set of laws on intellectual property rights protection was adopted by the Ukrainian Parliament in December 1993 and came into force in July 1994. They are as follows: the Ukrainian Copyright Law, the Law on Inventions, the Law on Trademarks, the Law on Industrial Patterns, and the Law on The Protection of the Information in Automated Systems. According to the World Organization of Intellectual Property and the European Patent Organization's experts, the Ukrainian legislation

in terms of industrial property rights protection is the most market-oriented relative to other former Soviet Union countries.

According to the Ukrainian Patent office, there are over 300 licensing agreements, most of them concluded between local entities. There are no cases of compulsory licensing to local companies of rights held by foreigners in Ukraine. As of October 1994, 6,000 trademarks were registered in Ukraine, including about 1,500 trademarks of U.S. entities.

In terms of industrial property, there is no data on the infringement or counterfeiting of trademarks. According to the Ukrainian Copyright Agency, there are also no statistics on the extent of piracy of books, records, videos, or computer software. Computer software and sound recordings are legally determined as products and shall be copyrighted according to Article 18 and 19 of the Ukrainian Copyright Law. According to Article 17 of the Ukrainian Law on Foreign Economic Activities, importing and exporting products in violation of intellectual property rights is strictly prohibited.

Ukraine is committed legislatively to the protection of intellectual property, though enforcement remains inadequate and sporadic. Two Ukrainian 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 (intellectual property). Ukraine is a successor state to many of the conventions and agreements signed by the former Soviet Union, and is a member of the World Intellectual Property Organization (WIPO). In fact, Valeriy Petrov, who is the head of the Ukrainian Patent Office, is a Deputy Head of the WIPO General Assembly. Ukraine is a party to the Paris Convention for Protection of Industrial Property, the Madrid Agreement on the International Registration of Trademarks and the Agreement on Patent Cooperation. In March 1994, Ukraine signed the Universal Copyright Convention. Furthermore, the Ukrainian Parliament is considering ratifying the Berne Copyright Convention. In September 1994, Ukraine became a party to the Eurasian Patent Convention which includes ten of the New Independent States. Adoption of this convention facilitates exchanges of new technologies and property rights, reduces customs duties, and provides for a unified patent valid in these ten countries. Ukraine has property agreements with 25 countries, including the United States, on exchanging relevant information.

8. Worker Rights

a. *The Right of Association.*—Soviet Law, or pertinent parts of the Ukrainian Constitution, continue to regulate the activities of trade unions. The Law on Citizens' Organizations passed in 1992 guarantees non-interference by public authorities in the activities of citizens' organizations and the right of these organizations to establish and join federations, and to affiliate with international organizations on a voluntary basis. In negotiating wages with the government, all unions are permitted to participate. In principle, all workers and civil servants including members of the armed forces are free to form unions, but in practice, the government discourages certain categories of workers (e.g., nuclear power plant employees) from doing so. A new Ukrainian Constitution and new trade laws are currently being drafted and debated which will affect the future status and activities of trade unions.

A successor to the former official Soviet trade union known as the Federation of Trade Unions (FTU), has begun to work independently of the government and has been vocal in opposing draft legislation that would restrict the right to strike. The FTU is considered a partner with management in the running of state enterprises. Although the FTU has no official or legal relationship with any political party, the government provides this organization with office buildings and resort properties.

Many independent unions 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 1989 strike committees and were instrumental in creating the independent miners' unions of the Soviet Union. When Ukraine became independent, these unions followed suit and also split from the Soviet Union. Independent unions were also 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, pilots, civil air dispatchers, locomotive engineers, and aviation ground crew unions formed the Consultative Council of Free Trade Unions, an entity which acts independently of the FTU.

The Law on Labor Conflict Resolution guarantees the right to strike to all but members of the armed forces, civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). This Law prohibits strikes that "may infringe on the basic needs of the population" (e.g., rail and air transportation). Furthermore, strikes based on political demands are illegal. However, this did not stop miners and transportation workers from making political as well as eco-

nomic demands during their September 1993 strikes that forced the government to hold elections at every level in 1994. Although the government has often relied on the courts to deal with strikes that it feels violate the law, the courts have not always ruled in the government's favor.

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, and independent trade unions have not been pressured to limit their contacts with international nongovernmental organizations. The American Federation of Labor–Congress of Industrial Organizations 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, but overlapping spheres of responsibility often impede the collective bargaining process. Wages in each industrial sector are established by the government in consultation and agreement with the appropriate trade unions, and all of the trade unions are invited to participate in negotiations. In case a labor-management dispute cannot be resolved at the enterprise level, the National Mediation and Reconciliation Service, empowered by the Law on Labor Conflict Resolution, will arbitrate the dispute. The President of Ukraine appoints the head of this service.

The Collective Bargaining Law often prejudices the bargaining process against the independent trade unions and favors the official unions. The Collective Bargaining Law provides for dues to be taken from the pay of every worker in a collective and paid to the official union. The social welfare benefits received by workers, including huge pension benefit funds, are administered for the enterprise by the unions.

Most workers are never informed that they are not obligated to join the official union, and joining an independent union can be bureaucratically onerous as well. Three steps must be followed to direct one's dues to a independent union. First, the worker must submit a form to the official union stating that the worker does not wish the official union to represent him. Second, the worker must submit a form to the independent union declaring the worker's desire to join it. Finally, a third form must be submitted to the enterprise directing that payroll deductions be given to the independent union instead of the official one. Independent unions are not given resources to administer social welfare benefits, and enterprise directors discourage departures from the official union by meeting with workers to discuss the benefits of an official union membership.

The collective bargaining law prohibits anti-union discrimination, and the courts resolve disputes under the law. Unfortunately, there have been cases in which such disputes have not been resolved in a fair and equitable manner.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits compulsory labor, and it is not known to exist.

d. *Minimum Age for Employment of Children.*—The minimum employment age is seventeen. However, in certain nonhazardous industries, enterprises can negotiate with the government to hire employees between fifteen and seventeen years of age. Education is compulsory up to age fifteen, and the Ministry of Education vigorously enforces the Law on Education.

e. *Acceptable Conditions of Work.*—In 1992, the Government established a country-wide minimum wage. Prior to the onset of high inflation, the minimum wage and numerous other mandatory subsidies provided a decent income for a family. However, during 1994 monthly inflation rose dramatically and seriously eroded incomes.Officially over half the Ukrainian population now live below the poverty level, with further declines expected. In theory, the Law on Wages, Pensions, and Social Security provides for mechanisms to index the minimum wage to inflation, but in practice, the government has paid most salaries several months late and at pre-inflation rates.

The Labor Code provides for a maximum 41 hour work week and at least 15 days of paid vacation per year, but stagnation in some industries (e.g., defense) has significantly reduced the work week for some categories of workers.

The Constitution and other laws contain occupational safety and health standards, but these are frequently ignored in practice. Lax safety standards enforcement was the principal cause of many serious mine accidents resulting in over 100 deaths and injuries in 1993. In theory, workers have the legal right to remove themselves from dangerous work situations without jeopardizing their employment; however, in reality, labor experts say that continued employment would be in question. The Labor Ministry is currently rewriting the Mine Safety Law and the NPGU is demanding that the Government improve worker safety in the mines.

THE UNITED KINGDOM

Key Economic Indicators

[Billions of U.S. dollars][1]

	1992	1993	1994[2]
Income, Production and Employment:			
Real GDP (1990 prices)[3]	825.9	713.9	752.3
Real GDP Growth (pct. based ou BPS)	−0.5	2.0	3.4
GDP (at current prices)[3]	913.3	819.2	876.7
By Sector:	4/		
Agriculture	16.5	15.6	16.6
Energy/Water	42.5	39.2	41.7
Manufacturing	197.5	177.5	189.4
Construction	52.7	43.8	46.8
Rents	67.3	61.7	64.8
Financial Services	153.1	139.4	148.8
Other Services	261.8	233.9	249.6
Government/Health/Education	163.4	143.6	153.2
Net Exports of Goods and Services	−15.9	−12.5	−9.1
Real Per Capita GDP ($US)	16404.4	14145.0	14916.4
Labor Force (millions)	28.4	28.2	28.0
Unemployment Rate (pct.)	9.8	10.3	9.4
Money and Prices:			
Money Supply (M2)	920.8	820.2	862.7
Base Interest Rate (pct.)	9.6	6.0	5.5
Personal Saving Rate (DI)	12.8	12.2	11.0
Retail Inflation (CPI in pct.)	3.7	1.6	2.4
Wholesale Inflation (pct.)	3.1	3.9	2.5
Exchange Rate (USD/BPS)	1.77	1.50	1.54
Balance of Payments and Trade:			
Total Exports (FOB)[5]	189.9	182.1	200.7
Exports to U.S.[6]	20.1	21.7	22.8
Total Imports (CIF)[5]	213.1	201.9	217.3
Imports from U.S.[6]	22.8	26.4	28.8
Trade Balance	−23.2	−19.8	−16.6
Trade Balance with U.S.	−2.7	−4.7	−6.0
Foreign Exchange Reserves	41.4	42.9	43.6

[1] Converted from British pound sterling (BPS) at the average exchange rate for each year.
[2] Data for 1994 are annualized estimates based on available quarterly data through July 1994.
[3] GDP at factor cost.
[4] Sectoral total contains adjustment factor of approximately BPS 23 billion.
[5] Merchandise trade (does not include services)
[6] U.S. Department of Commerce figures. Source: U.K. Central Stat. Office: Survey of Current Business

1. General Policy Framework

The United Kingdom (UK) 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 broadcasting, telecommunications and utilities procurement.

The economy is in its second year of recovery. The government refocused its economic policy after leaving the European Community Exchange Rate Mechanism (ERM) at the beginning of 1993. Low inflation with sustainable growth is now the primary goal. Inflation fell dramatically in 1993 and has remained subdued in 1994. It should average less than 2.5 percent for the year. The base interest rate was reduced to 5.25 percent at the beginning of 1994, but it was raised to 5.75 percent in August to slow the rate of expansion.

After declining in 1992, real GDP growth was two percent in 1993 and is expected to exceed three percent in 1994. The unemployment rate continues to fall sharply; it stood at 9.1 percent in September 1994 compared to the 1993 average of 10.3 percent. (Note that the depreciation of the pound sterling means that the UK's 1993

GDP expressed in dollars appeared to contract even though real GDP in national currency expanded.)

Fiscal Policy: Although the government entered the recession with a fiscal surplus in 1990, the loss of revenue during the recession substantially increased cyclical spending on unemployment benefits, and pre-election spending in 1992 led to a record budget deficit level and Public Sector Borrowing Requirement (PSBR) by 1993. Seized by the need to rein in the spiraling PSBR, the government initiated a series of stringent fiscal measures to take effect over the three fiscal years starting April 1, 1994. Partially due to falling employment and faster than expected growth, PSBR performance for 1993/94 was better than projected by the government.

In 1994/95, the current fiscal year, progress in reducing the PSBR is being maintained, again due to higher than expected growth and falling unemployment. However, fiscal tightening appears to be slowing consumption expenditure.

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. Corporate tax rates vary between 25 and 33 percent. Other domestic tax revenue sources include the value-added tax (VAT, currently set at a rate of 17.5 percent), and excise taxes on alcohol, tobacco, retail motor fuels, and North Sea oil production.

Monetary Policy: The UK manages its 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

The UK withdrew from the ERM in September 1992, and the pound sterling floats freely in the exchange market. The Prime Minister has publicly disavowed any return to the ERM in the foreseeable future. Sterling's trade-weighted exchange rate index initially fell from 92 in 1992 to 76 in early 1993 and hovered at around 80 for most of 1994.

3. Structural Policies

The UK economy is characterized by free markets and open competition. Prices for most goods and services are established by market forces. Prices are set by the government in those few sectors where the government still provides services directly, such as passenger railway and urban transportation fares, and government regulatory bodies monitor the prices charged by electric, natural gas and water utilities. The UK's participation in the European Union Common Agricultural Policy significantly affects the prices for raw and processed food items, but prices are not actually fixed for any of these items.

Over the past 15 years Conservative governments pursued growth and increased economic efficiency through structural reform, principally privatization and deregulation. The financial services and transportation industries were deregulated. The government sold its interests in the automotive, steel, aircraft and air transportation sectors. Electric power and water supply utilities were also privatized. Coal mining, rail transportation and local bus transportation are in the process of being privatized. Subsidies were cut substantially, and capital controls lifted. Employment legislation increased market flexibility, democratized unions, and increased union accountability for the industrial acts of their members.

Although there has been great progress, some challenges remain. Social welfare programs and the business community are still adjusting to job losses and changes in the business climate resulting from deregulation and privatization. The government has not been able to achieve sustained success in reducing the budget deficit, and consequently has not been able to lower tax rates as expected.

The current UK government strongly supports free trade and open markets. It has ratified the Uruguay Round agreement and joined the World Trade Organization (WTO) as a founding member.

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 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 developing country debt and debt of former communist countries. 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 broadcasting, telecommunications and utilities procurement. Problem areas and specific regulations resulting in trade barriers in these areas are profiled below.

Broadcasting: The 1990 Broadcasting Act, which implements the 1989 European Community 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. The EC directive itself calls for a majority (50 percent) of EC content "where practicable."

Telecommunications: The UK domestic telephony market was opened for competition in 1991. In the past year, the UK telecommunications regulatory body has made a number of favorable rulings on issues such as the high cost and difficulty of negotiating interconnection agreements with British Telecom (the former government monopoly, now privatized), number portability (ability to keep a specific phone number when changing service provider), and other equal access issues. These rulings have significantly reduced the main market barriers with the aim of completely eliminating some of the most onerous by 1996. Sufficient progress was made to allow the FCC to make an initial determination in September 1994, that the UK market was "equivalent" to the U.S. market. This was followed up in October by a similar decision on the part of the UK. This mutual action will pave the way for significant increases in competition in trans-Atlantic telecommunications. Some U.S. companies believe, however, that the UK still has some distance to go, particularly regarding Access Deficit Charges as well as refusing to permit new entrants to operate international long distance services using their own facilities in the near term.

Utilities Procurement: The UK implemented the EC Utilities Directive in 1992 by instituting a series of regulations based on the Directive. The regulations allow government-owned and private utilities to favor EC over foreign suppliers.

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 Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention and the Universal Copyright Convention.

New copyright legislation simplified the British process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to the U.S. positions.

8. Worker Rights

a. *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. *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 education authorities can limit employment of children under 16 years old if working will interfere with a child's education.

e. *Acceptable Conditions of Work.*—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 investigatory committees, does research and trains workers. The Health and Safety Executive (HSE) enforces health and safety regulations and may initiate criminal proceedings. This system is efficient and fully involves workers' representatives.

f. *Rights in Sectors with U.S. Investment.*—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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		13,802
Total Manufacturing		22,855
Food & Kindred Products	2,314	
Chemicals and Allied Products	3,722	
Metals, Primary & Fabricated	1,591	
Machinery, except Electrical	4,265	
Electric & Electronic Equipment	2,247	
Transportation Equipment	1,906	
Other Manufacturing	6,810	
Wholesale Trade		4,408
Banking		4,122
Finance/Insurance/Real Estate		44,401
Services		4,447
Other Industries		2,396
TOTAL ALL INDUSTRIES		96,430

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

UZBEKISTAN

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A

Key Economic Indicators—Continued

(Millions of U.S. dollars unless otherwise indicated)

	1992	1993	1994 [1]
Real GDP Growth (pct.)	−9.6	−2.4	−2.6
GDP (at current prices) [2]	447.2	4,428.1	N/A
By Sector:			
Agriculture	N/A	N/A	N/A
Energy/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/Education	N/A	N/A	N/A
Net Exports of Goods and Services	1,424	2,205	N/A
Real Per Capita GDP (1985 base)	N/A	N/A	N/A
Labor Force (000s)	10,448	10,631	10,800
Unemployment Rate (pct.)	N/A	N/A	N/A
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 Savings Rate	N/A	N/A	N/A
Retail Inflation	787	867	900
Wholesale Inflation	2,688	1,033	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (USD/som) [3]			
Official	0.59	0.00095	0.0436
Parallel	0.0044	0.00098	0.0322
Balance of Payments and Trade:			
Total Exports (FOB)	1,424	2,205	N/A
Exports to U.S.	38	7	3
Total Imports (CIF)	1,659	2,667	N/A
Imports from U.S.	21	73	100
Aid from U.S.	7.4	8.9	19
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	123	N/A	N/A
Debt Service Payments (paid)	20	N/A	N/A
Gold and Foreign Exch. Reserves	N/A	N/A	N/A
Trade Balance	−236	−463	N/A
Trade Balance with U.S.	18	−66	−97

N/A—Not available.
[1] 1994 Figures are estimates based on data available in October 1994.
[2] Figures for GDP are in billions of current rubles.
[3] Exchange rates are averages for 1992 (in rubles), averages for the first 10 months of 1993 (i.e., before the introduction of the som-coupon), and actual figures for end October 1994.

1. *General Policy Framework*

The Republic of Uzbekistan declared independence in 1991. Since that time, like the other former Soviet republics, it has been engaged in the arduous transition from a planned to a market economy. Although the Government of Uzbekistan regularly states its determination to complete this process, it just as steadfastly maintains that the process must be done slowly, carefully, and in keeping with Uzbekistan's unique conditions in order to maintain social stability. The result has been slower and more centrally-managed reform than in some other former Soviet republics. Restructuring of the economy and the breakdown of trade links with the other former republics has resulted in a declining GNP. However, the decline has been less sever than in some of the other republics, and officials say production started to recover in the second half of 1994.

Uzbekistan's economy is primarily based on agriculture and agro-processing, accounting for about half of GNP. Uzbekistan is the world's fourth largest producer (second largest exporter after the United States) of cotton, and cotton accounts for over 40 percent of agricultural production. Much of the industrial production is

linked to agriculture, including cotton harvesting equipment, textiles, and chemical fertilizers and pesticides.

Uzbekistan also has promising mineral reserves. It is the world's eighth largest producer of gold and has rich reserves of uranium, silver, copper, lead, zinc, wolfram, and tungsten. It is a net exporter of natural gas. Petroleum and petroleum products, at 3–4 mmt per year, currently account for the largest share of Uzbekistan's imports. However, Uzbekistan's oil production is increasingly rapidly, and the government hopes to achieve self-sufficiency in petroleum in 1996.

Uzbekistan is slowly shifting its direction of trade away from total reliance on the former Soviet Union (FSU) countries. Trade with the Commonwealth of Independent States (CIS) still accounts for about 60 percent of Uzbekistan's total trade (chiefly cotton exports and oil imports, but also including machinery and other inputs for Uzbekistan's factories). Although Uzbekistan is a net exporter of fruits and vegetables to the FSU, it must import about four million tons of wheat each year, including from the U.S. Uzbekistan hopes to reach wheat self-sufficiency by increasing yields and moving land from cotton to wheat cultivation, but it is likely to remain a net importer for at least the near future. Aside from wheat and petroleum, other major imports include machinery and consumer goods.

Fiscal Policy: With independence, Uzbekistan lost budget subsidies from Moscow which accounted for approximately 20 percent of the republic's budget. As a result, the government budget deficit increased to 13.8 percent of GDP in 1992, and almost 16 percent in 1993, before declining to an estimated 3.2 percent during the first nine months of 1994. The increase in the deficit was largely due to the government's decision to heavily subsidize prices of basic consumer goods and services, such as bread, flour, fuel, and public transport. Government-owned banks also supported failing state enterprises through the provision of heavily subsidized credit. The improvement in 1994 is credited largely to the government's decision to eliminate or sharply reduce most consumer subsidies. The budget deficit has been covered primarily by borrowing from the Central Bank and credits (particularly for food purchases) from abroad.

Monetary Policy: Uzbekistan was a member of the ruble zone from independence in September 1991 until November 1993, when it introduced a transitional currency, the som-coupon. After the introduction of the som-coupon, inflation, chiefly fueled by sharply negative real interest rate credit to state enterprises, continued at about 20 percent per month during the first half of 1994. In July 1994, the government introduced its new currency, the som. Through a combination of administrative controls on the value of bills and withdrawals from bank deposits, cutbacks in credit to state enterprises, a sharp increase in the discount rate, and reduced government borrowing from the Central Bank, the inflation rate fell to about five percent per month from July through October 1994. At the beginning of October, the government also announced a fourfold increase in savings bank interest rates, making real rates positive for the first time since independence.

2. Exchange Rate Policy

Since August 1994, there has been a two-tier legal exchange rate system in Uzbekistan. The official rate is set by the Central Bank based on the outcome of a biweekly auction of dollars to authorized commercial banks by the governmental Republican Currency Exchange. The rate is used for government imports and exports, as well as non-cash transactions, totalling about 70 percent of Uzbekistan's trade. The commercial rate is determined by the Central Bank on the basis of its own unpublished calculations. Authorized commercial banks have a small degree of latitude to charge different rates. Although initially far apart, the two exchange rates converged in October, and were identical at the start of November. A parallel, or "black" market operates openly and vigorously. At the end of October it carried a premium of about 25–30 percent over the legal rate.

In August, citizens of Uzbekistan were given the right to purchase up to $250 in foreign exchange through the commercial banking system; this was later increased to $1,000. A substantial portion of commerce in Uzbekistan was conducted in hard currency during 1994, but a government decision in October made the som the only legal tender for domestic sales transactions. Uzbekistan's investment law protects the right to fully and freely repatriate profits in hard currency. However, the limited supply of foreign exchange available through the commercial banking system has made this difficult in practice. As a result, many foreign businesses rely on barter or countertrade arrangements to repatriate profits. Local private businessmen rely to a large extent on the parallel market to finance imports of consumer goods.

3. Structural Policies

Pricing Policies: The government officially decontrolled almost all prices during 1994. The state order system was abolished for all agricultural commodities except wheat and cotton, of which the majority must still be sold to the government at set prices. However, the government still controls a major share of industrial production, transport infrastructure, and the distribution network, and so exercises a strong influence on pricing and marketing policies. The government remains the primary exporter and importer of agricultural commodities (cotton exports and wheat imports) and capital goods.

Tax Policies: Tax policies are confusing and often ill-administered. Value-added tax (VAT, 26 percent) and enterprise (i.e., corporate, 26.9 percent) taxes accounted for over 50 percent of tax collections in 1993. Excise (14.8 percent) and personal income (10.7 percent) taxes play a smaller role. The government has suspended customs duties through at least January 1995 in an effort to provide cheaper consumer goods to the population. The current enterprise tax law uses the wage base plus profits, rather than simply profits, in calculating the tax base. The government currently is working on a new draft law that will change this. Income tax laws were changed several times during 1994, and the current top marginal rate of 40 percent takes effect at a relatively low level of income by western standards. Exports carry a 15 percent hard currency tax and a further 15 percent cash surrender requirement, which together are a major factor impeding exports. Joint ventures which invest in priority sectors are eligible for tax holidays ranging from two to five years. Large foreign firms often are able to negotiate individual tax deals with the government, but this is more difficult for small and medium-sized firms.

Regulatory Policies: Uzbekistan inherited many production standards and environmental regulations from the former Soviet Union, but enforcement is spotty. Issuance of regulations by one government body absent coordination with other affected government organizations has caused problems for some foreign business interests. Although almost all price controls technically have been abolished, the state plan system still is partially in place, and still determines quantities (and, indirectly, prices) for many industrial inputs.

4. Debt Management Policies

Uzbekistan signed the "zero option" agreement with Russia in 1992, and so assumed no responsibility for any of the former Soviet Union's external debt. Since independence, it has pursued a very cautious policy on assuming debt, partly of its own volition and partly because of western creditors' reluctance to deal with an unknown new client. As a result, it has a very low foreign debt, although the actual amounts (and thus debt/export and other ratios) are not public. Uzbekistan principally has relied on short-term commercial debt, collateralized by its gold reserves or cotton. It has also received trade credits from the United States, Turkey, and European countries, chiefly for purchase of agricultural commodities. Thus far, Uzbekistan's repayment record on its limited debts has been good. It has not rescheduled any official or commercial debts to date.

Uzbekistan is a member of the World Bank, IMF (International Monetary Fund), and EBRD (European Bank for Reconstruction and Development). It has applied to join the Asian Development Bank, for which it is eligible. The World Bank thus far has only approved one $21 million loan for Uzbekistan, although several others are in the planning stages. The EBRD has made loans totalling $112.2 million to Uzbekistan. IMF currently has no adjustment program with the IMF, but an IMF team was in Tashkent in November to finalize a $140 million Structural Transformation Facility (STF) with the government.

5. Significant Barriers to U.S. Exports

Import Licenses: The Government of Uzbekistan says that no import licenses are required for any goods.

Services Barriers: Foreign company involvement in the services sector remains limited, and government officials say they would like to increase it. Under current legislation, foreign banks may be registered by the Central Bank to conduct banking operation and participate in commercial bank joint ventures. There is only one foreign joint venture bank in Uzbekistan, and it has authority to conduct only limited commercial banking operations. The original monopoly of the national tourist company UZBEKTOURIZM in travel services is gradually being eroded. The national airline Uzbekistan Airways still has a virtual monopoly on domestic air travel and ticket services. Several foreign accounting firms are operating in country as foreign aid contractors, and there appear to be no barriers to them setting up private business without local partners. Foreign insurance companies are limited to participation in joint ventures, which must be registered by the state insurance company.

A major American insurance company has successfully negotiated two joint ventures, and found the process easier than in other CIS countries.

Standard, Testing, Labelling, and Certification: Uzbekistan inherited many standards and testing requirements from the Soviet Union, but often they are disregarded. Ministries sometimes issue standards requirements that conflict with other government commitments. However, in cases where the political will to complete a transaction exists, the problems are usually overcome.

Investment Barriers: Uzbekistan has a very liberal investment code which allows for, among other things, free and full repatriation of profits and tax holidays of from two to five years, depending upon the type of investment. However, in practice, negotiating and registering a joint venture is a cumbersome process which requires the approval of numerous government agencies and (usually) approval at the highest levels of the government. The registration process alone can take 3–6 months, but hundreds of foreign companies have completed it. Repatriation of funds is complicated by the lack of foreign exchange in the country.

The government has targeted oil and gas, mining, processing of agricultural commodities, textiles, and tourism as priority areas for foreign investment. It has stated it will allow up to 100 percent foreign ownership in all but "strategic" industries, where it will not allow majority foreign ownership. "Strategic" industries include, but are not limited to, the mining, energy, and cotton processing sectors. The Government of Uzbekistan has indicated that it will seek few exemptions from national treatment for some sectors of the economy in the bilateral investment treaty (BIT) which it is currently negotiating with the U.S. government.

Government Procurement Practices: Much of Uzbekistan's trade with the states of the former Soviet Union is governed by bilateral agreements that provide for countertrade in essential commodities such as petroleum products, food and grain, fertilizers, metals, and cotton fiber, but these have not prevented U.S. firms from being active traders in cotton and grain. Efforts to forge closer economic cooperation with the CIS and particularly other Central Asian states have not yet proved to be obstacles to U.S. exports in some sectors, even where the government is the customer. Noncompetitive bidding is still common, with trade deals often based on relationships between government officials and foreign firms. However, the government has begun to make more use of tenders and competitive bid processes.

Customs Procedures: customs procedures are bureaucratic, often arbitrary and sometimes complicated by corruption.

6. Export Subsidies Policies

Many goods in Uzbekistan, and particularly those destined for export, such as cotton (which provides 70 percent of Uzbekistan's export revenues) are not bought and sold at market prices, and the government directly or indirectly controls most exports. However, government policy primarily is directed at import rather than export subsidies. All exports are subject to an export tax, and the most important ones require export licenses as well. Export goods are also subject to VAT on the cost of their inputs, although not on the final product. A dual exchange rate is in effect, but the two exchange rates currently are the same; earlier disparities in the rates favored imports rather than exports. There are no specific promotional export financing programs, but the government does give preferential tax treatment to foreign investors in priority sectors, including production for export. Uzbekistan is currently a GATT observer, and it has applied for full GATT membership. It is not a member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Uzbekistan is not a party to any international agreements protecting international property rights. Copyright and trademark violations are not uncommon in Uzbekistan, particularly involving western films, music cassettes, computer software, and clothing trademarks.

8. Workers 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. It also provides 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. However, to date the country's 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. Although the labor law gives unions oversight for both individual and collective labor disputes, the law does not mention strikes or the right to strike.

b. *The Right to Organize and Bargain Collectively.*—Unions are empowered to conclude agreements with enterprises. However, there still is no practice of unions carrying out adversarial negotiations with private employers. The private sector is growing, but the state still remains the major employer, and the unions function more like professional associations than adversarial groups in dealing with the state.

c. *Prohibition of Forced or Compulsory Labor.*—Uzbekistan's constitution specifically prohibits forced labor. However, the semi-mandatory exodus of students and government workers to rural areas to help with the cotton harvest for low wages is an annual phenomenon.

d. *Minimum Age of Employment for Children.*—Officially, the minimum working age is 16. 15-year olds can work with permission, but have a shorter work day. However, much younger children work with their families on farms or participate in street trade.

e. *Acceptable Conditions of Work.*—The work weeks is set at 41 hours. Some workers are entitled to overtime pay, but rarely receive it. 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. However, as with the other former Soviet republics, enforcement of standards is very poor, and working conditions are well below western standards.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment is too limited at this time to permit comment on any differences.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
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.

LATIN AMERICA

ARGENTINA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
GDP (at current prices)[2]	229	257	279
Real GDP Growth (pct.)	8.7	6.0	6.5
GDP by Sector: (pct./GDP)			
Agriculture	7.8	7.3	7.0
Manufacturing	27.0	26.6	27.5
Mining	2.3	2.3	2.3
Services	55.4	55.9	56.0
GDP Per Capita (USD)	6,932	7,644	8,206
Labor Force (000s)	13,126	13,126	13,978
Unemployment Rate (pct.)	6.9	9.3	10.8
Money and Prices:			
Money Supply (M1) Growth (pct.)[3]	48.9	31.0	10.0
Commercial Interest Rates on 180 Day Deposits[3]	8.0	7.8	8.9 (Aug)
Savings Rate (pct. of GDP)	15.2	15.9	13.5
Investment Rate (pct. of GDP)	16.7	17.7	20.0
Wholesale Inflation[3]	3.3	0.1	3.9
CPI (pct. change)[3]	17.5	7.4	3.7
Exchange Rate (USD/peso)[4]			
Official	.9910	.9990	1.0
Parallel	.9910	.9990	1.0
Balance of Payments and Trade:			
Total Exports (FOB)[5]	12.2	13.1	14.7
Exports to U.S. (FOB)	1.4	1.3	1.5
Total Imports (CIF)	14.9	16.8	20.2
Imports from U.S. (FAS)[6]	3.0	3.8	4.8
Aid from U.S. (USD/000s)	1.2	1.8	1.7
External Public Debt[7]	65.5	62.8	70.1
Debt Service Payments[8]	4.2	4.2	3.3
Gold and Foreign Exch. Reserves	12.5	15.0	15.5
Trade Balance	−2.6	−3.7	−5.5
Trade Balance with U.S.[6]	−1.8	−2.5	−3.3

[1] Figures for 1994 are U.S. Embassy estimates.
[2] Nominal GDP is virtually the same in dollars or pesos after 1991 when the Convertibility Plan took effect, linking the peso and the dollar at the rate of one to one.
[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] Foreign currency debt.
[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

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. From 1991–1993 real GDP growth averaged eight percent annually, and the government has forecast growth of nearly seven percent in 1994. By mid-1993 the inflation rate fell to virtually zero—a major accomplishment given Argentina's bouts with hyperinflation only a few years ago. Meanwhile, a stable exchange rate and the opening of the economy to international competition, including large reductions in tariffs and other trade barriers and elimination of all but one export tax, have resulted in a boom in imports, particularly from the United States. During the first five months of 1994 Argentina's deficit with the United States was $1.4 billion, 56 percent of Argentina's overall trade deficit during that timeframe. The expanding deficit has raised eyebrows, but the government has countered this by citing the high concentration (30 percent) of vitally needed capital goods in the import bill.

The public sector budget has been in the black for the past few years—a result of more efficient tax collection, increased revenue from import tariffs (resulting from the import surge) and large infusions of revenue from the sale of state industries. The government has also eased the tax burden on businesses by eliminating charges on bank debt, freight, shipping, and foreign currency transactions. At the same time, the burden on the consumer has grown, via increases in the value added tax (VAT) and personal income tax rates. However, continued heavy expenditures have threatened to generate a deficit (less than one percent of GDP) in 1994, prompting the government to crack down on tax evaders and to turn to foreign borrowing.

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

Argentina has no exchange controls; customers may freely buy and sell currency 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 .998 pesos per dollar.

The fixed exchange rate, which some observers believe is overvalued, and the release of pent-up demand stemming from the overall economic recovery, have made imports increasingly competitive for local buyers. Accordingly, the value of U.S. exports to Argentina nearly quadrupled from 1990 to 1993, with further growth in 1994.

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 markedly through the privatization of most state firms, including the oil firm YPF. Meanwhile, the authorities have eliminated price controls on all but a few goods in the marketplace. Nevertheless, the expanded trade deficit has occasionally compelled the government to implement ad hoc protectionist measures. For example, in 1993 the authorities temporarily placed higher duties on various textile imports which allegedly were being sold in Argentina below cost. These measures remain in effect until January 31, 1995 with a possible one-time extension of six months.

Argentina, Brazil, Paraguay and Uruguay formed a customs union (MERCOSUR) on January 1, 1995 with a common external tariff (CET) covering 85 percent of traded goods. (Capital goods, informatics and telecommunications will be excepted from the CET until the turn of century). Argentina strove to maintain minimal tariffs during MERCOSUR negotiations in order to facilitate renovation of its industrial plant, which requires continued imports of capital equipment and other inputs. The CET will range from zero to 20 percent; many non-MERCOSUR products entering Argentina will face higher tariffs. The Argentine government has indicated it will compensate by lowering or eliminating the statistical tax.

Argentina ratified the Uruguay Round Agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

4. Debt Management Policies

The government reduced Argentina's public debt by $10.4 billion in 1993 through privatizations, decline in net disbursements, reduction in capital (Brady Plan), capitalization of interest and adjustment of the value of government assets. From 1989 to 1993 Argentina's debt service fell from 101 percent to under 50 percent of exports

of goods and non-factor services. Total public sector foreign currency external debt came to $62.9 billion at the end of 1993.

The IMF, World Bank, and InterAmerican Development Bank (IDB) have been major sources of funds to Argentina. In September 1994 the government terminated an IMF Extended Fund Facility (EEF) arrangement, initiated in 1992, preferring to forego Fund conditionality in favor of commercial borrowing. Both the World Bank and IDB obligated over $1 billion annually in 1993–1994.

5. Significant Barriers to U.S. Exports

One of the key free market reforms of the Menem Administration has been to open the Argentine economy to foreign producers. The government abolished the import licensing system in 1989 and since 1990 has slashed the average tariff from nearly 29 percent to less than 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 have capitalized on this and risen dramatically over the past few years.

Barriers to U.S. Exports: Despite the generally favorable environment for imports, the authorities occasionally erect protectionist barriers. In September 1993, responding to what it considered widespread "dumping" of apparel, particularly from the far east, the government imposed temporary import surcharges on an array of clothing, rugs and textiles. Restrictions apply to imports of a broad range of used and manufactured equipment as well. In October 1994, following congressional passage of a law designed to promote the local film industry, the government enacted new taxes on video sales and rentals, which could curtail demand for U.S.-made films. (However, President Menem vetoed other sections of the bill, including authority for the National Film Institute to regulate the release of foreign films and establishment of a six month minimum timeframe between opening of a film in the theater and its video release). On the other hand, in September 1994 the government eliminated tariffs and duties on imports of computer software, much of which is supplied by American firms.

Argentina also protects the automobile assembly industry through a combination of quotas and heavy tariffs. Nevertheless, the number of foreign-manufactured vehicles on the roads is increasing through heavy demand that easily outstrips local production. The government claims it will dismantle the protection scheme by the turn of the century.

Service Barriers: The government has progressively eliminated restrictions on foreign-owned banks. In January 1994 the authorities formally abolished the distinction between foreign and domestic banks. They allowed foreign banks to open branches and began issuing new licenses. However, lending and other operational limits for foreign bank branches are based on local, rather than global capital. Government bodies and state agencies must still direct their business to public banks, but this stipulation's importance is declining, given the ongoing privatization program. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. Furthermore, the privatization of pension funds has attracted some American firms.

Investment Barriers: There are few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval.

A U.S.-Argentina bilateral investment treaty came into force on October 20, 1994. Under the treaty U. S. investors enjoy national treatment in all sectors except shipbuilding, fishing, insurance and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions.

Government Procurement Practices: "Buy Argentina" practices have been virtually abolished. Argentine sources will normally be chosen 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 adheres to the GATT Subsidies Code and also has a bilateral agreement with the United States to eliminate remaining subsidies for industrial exports and to ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters.

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 Berne Convention, the Universal Copyright Convention, the Geneva Phonogram Convention, the Treaty of Rome and the Treaty on the International Registration of Audiovisual Works. In addition, Argentina is a member of the World Intellectual Property Organization (WIPO) and a signatory to the Uruguay Round TRIPS text. However, USTR maintained Argentina on its "priority watch list" in 1994 because of the lack of patent protection for pharmaceuticals.

Patents: Argentina's patent law, enacted in 1864, is the weakest component of the country's IPR regime. The law specifically excludes pharmaceutical "compositions" from patent protection, which have cost U.S. drug firms hundreds of millions of dollars in sales lost to pirates and has damaged Argentina's ability to attract certain high-tech industries in both production and research and development. The law also 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 October 1994, the bill was still not passed by either house of the Argentine congress.

Copyrights: Argentina's copyright law, enacted in 1993, is adequate by international standards. Recent decrees provided protection to computer software and extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, however, video piracy has become a serious problem. Efforts are underway to combat this, including arrests, seizure or pirated material and introduction of security stickers for cassettes.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has striven to improve.

Trade Secrets: Argentina has no trade secrets law per se, but the concept is recognized and encompassed by laws on contract, labor and property. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. This technology conceivably could be covered by existing legislation on patents or copyrights, but this has not been verified in practice. Nevertheless, Argentina has signed the WIPO Treaty on Integrated Circuits.

8. *Worker Rights*

a. *Right of Association.*—The Argentine labor movement is undergoing a difficult transition as the government privatizes inefficient state-owned enterprises. These changes have affected the composition of the labor movement, but have not altered the worker's right to form trade unions. Most unions belong to the large, national General Labor Confederation (CGT), which supports, with reservations, the government's economic reforms. However, a militant faction within the CGT, the Movement of Argentine Workers, and a separate organization, the Congress of Argentine Workers, led by some government and teachers' unions, are critical of the government's economic reform policies.

Unions have the right to strike and members who participate in strikes are protected by law. In 1994 major strikes occurred without government interference against the privatized greater Buenos Aires electric power utility and the aluminum smelting plant in the southern province of Chubut. However, the government declared illegal a proposed general strike by trade union opponents of the government's economic policies, on the grounds that the constitutional right to strike is intended to protect workers' economic interests but not to be used as a political weapon.

Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively.*—Anti-union practices are prohibited by law and respected in practice. Argentine labor, the government and the private sector reaffirmed these rights in a framework agreement signed in July aimed at reforming labor-management relations in the context of economic restructuring and increasing global competitiveness. The trend towards bargaining on a company level in contrast to negotiating at the national level on a sectoral basis continues, but the adjustment is difficult for both sides. For this reason, the agreement proposes to create a national mediation service to promote more effective collective bargaining.

The Committee of Experts on the Application of Conventions and Recommendations of the International Labor Organization (ILO) took note of a teacher's union complaint regarding restrictions on collective bargaining in certain specified sectors

and asked the government to inform the ILO of measures it may take or has taken to encourage voluntary negotiations without impediments.

The framework agreement also covers health and safety issues, employment creation and training, work-related injuries, grievance procedures, and the distribution of social benefits. It is expected to lead to the reform of a significant body of the labor code, which many observers agree needs urgent revision. The framework agreement aims, in part, to lower labor costs and give employers greater flexibility in hiring, firing, and redistributing the workforce.

Workers may not be fired for participating in legal union activities. Those who prove they have been discriminated against have the right to be reinstated.

There are no officially designated export processing zones.

c. *Prohibition of Forced or Compulsory Labor*.—Forced labor is not known to be practiced in Argentina.

d. *Minimum Age for the Employment of Children*.—Employment of children under 14, except within the family, is prohibited by law. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. Notwithstanding these regulations, a significant number of children between 10 and 14 years of age, estimated at 200 thousand in a 1993 report by the Ministry of Labor, UNICEF and the ILO, are illegally employed, primarily as street vendors or household workers.

e. *Acceptable Conditions of Work*.—The national monthly minimum wage is $200. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and workweek 48 hours. The framework agreement is designed to produce legislation to modernize the accident compensation process and occupational health and safety norms. In responding to a complaint from the Argentine Congress of Workers that work-related illnesses were not covered under the existing workmen's compensation system, the ILO's committee of experts urged the government to provide information to the Congress of Argentine Workers regarding the measures it plans to take to fulfill its obligations under Convention 42, Workmen's Compensation (occupational diseases) which Argentina ratified in 1950.

Occupational health and safety standards in Argentina are comparable to those in most industrialized countries, but federal and provincial governments lack sufficient resources to enforce them fully. The most common victims of inhumane working conditions generally are illegal immigrants with little opportunity or knowledge to seek legal redress.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		566
Total Manufacturing		1,993
Food & Kindred Products	667	
Chemicals and Allied Products	443	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	56	
Transportation Equipment	23	
Other Manufacturing	386	
Wholesale Trade		135
Banking		552
Finance/Insurance/Real Estate		578
Services		77
Other Industries		455
TOTAL ALL INDUSTRIES		4,355

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

THE BAHAMAS

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP	3,059	3,065	N/A
GDP Growth Rate	3.0	3.0	N/A
GDP Share by Sector: (pct.).			
Tourism	50	50	50
Finance	12	12	12
Manufacturing	4	4	4
Agriculture/Fisheries	4	4	4
Government	12	12	12
GDP Per Capita (USD)	11,588	11,610	N/A
Labor Force	135,700	136,900	N/A
Unemployment Rate (pct.)	14.8	13.1	N/A
Money and Prices:			
Money Supply (M1)	377.7	379.5	N/A
Commercial Interest Rate (pct.)	8.0	7.25	N/A
Personal Savings Rate	3.20–5.55	2.54–5.13	3.00–4.63
Investment Rate	N/A	N/A	N/A
Retail Price Index (1987=100)	133.0	136.2	136.6
Retail Price Index Change (pct.)	7.2	5.7	2.7
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (USD:BD)	1:1	1:1	1:1
Balance of Payments and Trade:			
Total Exports (FOB)	310.2	256.8	N/A
Non-Oil Exports (estimated)	585.3	348.2	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 Imports (estimated)	972.7	1,014.7	330.5
Imports from U.S.	712.6	704.1	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	133.3	117.2	N/A
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	173.9	146.0	N/A
Merchandise Exports (FOB)	310.2	256.8	N/A
Merchandise Imports (FOB)	1,069.2	1,080.9	N/A
Services (net)	711.5	738.9	N/A

N/A—Not available.
[1] Statistics cover mid-year 1994.

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 50 percent and 12 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 new jobs and diversify the economy.

The United States remains The Bahamas' major trading partner. U.S. firms exported an estimated $704.1 million worth of goods and services to The Bahamas in 1993, down from $712.5 million the previous year but still approximately 55 percent of all Bahamian imports. 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 cor-

porate 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 government budget included repayments estimated at $64 million on a total public debt of $358.4 million. The public debt service ratio reached 4.6 percent as of the first quarter of 1994. The overall FY 94/95 government budget of $756 million represented an increase of $75 million over the total projected expenditures in the FY 1993–94 budget. The budget announced new tax measures, including a 10 percent increase in the gasoline tax (the second such raise in two years), an import tariff on pork products (previously untaxed), increases in business license fees and other government fees, and the elimination of a system of rebates for early payments of annual property taxes. These new measures were projected to raise an additional $38 million in government revenue. The government also projected an increase in public borrowing of $60 million to make up for the budgetary shortfall. One problem faced by the Ingraham Administration was that government revenue under the previous budget fell an estimated $30 million short of original projections, apparently due to slow growth of the overall economy and substantial tax evasion. Total 1993 national debt was $1.41 billion, up from $1.28 billion in 1992.

The Bahamas' primary monetary strategy is to maintain stability and expansion in foreign exchange reserves to purchase essential imports, maintain the parity of the Bahamian and American dollars, and finance repatriation of corporate profits. Despite efforts by the Central Bank to ease consumer credit in January 1993 by removing the previous 35 percent down-payment requirement for consumer loans, domestic Bahamian banks were so awash in liquidity by mid-1994 that some banks even refused new Bahamian dollar deposits. Central Bank authorities blamed overly cautious lending policies by Bahamian banks for both consumer and business loans for the excess liquidity problem. By mid 1994, the commercial banks' prime lending rate was 6.75 percent.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian Government recently repeated its 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 which was estimated at 5.7 percent in 1993 is now 2.7 percent.

Recognized internationally as a tax haven, The Bahamas does not impose income, inheritance or sales taxes. In 1994, the Government raised some customs duties and imposed new tariffs on pork products. Bahamians shopping in Florida (and elsewhere abroad) are permitted to import $300 worth of goods duty free per trip, twice a year ($150 for persons under 12 years of age.) In addition, The Bahamas charges a host of "stamp taxes" on most imports above and beyond the import duties. These stamp taxes vary depending upon the item in question, and apply even to many items otherwise duty free. For example, in 1992, the Bahamian government lifted customs duties on a list of items (including china, crystal, fine jewelry, leather goods, crocheted linens and tablecloths, liquor, wines, perfume, cologne, photographic equipment and accessories, sweaters, and watches) which could be sold to tourists as "duty-free," but retained variable stamp taxes on these items. Bahamian Customs requires entry forms and genuine invoices (original or carbon copy) for goods coming by sea, air or post. The Customs Department only honors discounts of up to three percent given by U.S. exporters.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit which is refundable on their re-exportation. These include fine jewelry, goods for business meetings or conventions, travelling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

The Bahamian government in 1993 repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, replacing it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in The Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina.

The Bahamian government hopes this new legislation will stimulate the second home/vacation home market and revive the once-vibrant real estate sector. The new law also provides for a two-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during those two years. Following protests by foreign property owners, the Bahamian government has revised plans for the proposed 7 percent increase on the assessed value of undeveloped property owned by non-Bahamians. The new tax structure as of January, 1994 follows:

—$1–$3,000: the standard property tax is $30.00.

—$3,001–$100,000: the property tax is 1 percent of the assessed value.

—Over $100,000: the property tax is 1½ percent of the assessed value.

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.

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. 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 $1.41 billion in 1993, with debt service of $74.0 million accounting for 8.6 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. The approved product is not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas is a member of the World Intellectual Property Organization (WIPO), and is a party to the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention.

8. Worker Rights

a. *Right of Association.*—The Constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or Government control, and are guaranteed The right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively.*—Workers are free to organize and collective bargaining is extensive for the 34,225 workers (25 percent of the work force) who are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. *Minimum Age for Employment of Children.*—While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 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.*—Authorities enforce Labor laws and regulations uniformly for all sectors and throughout the country, including within the export processing zones.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		471
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		140
Banking		2,707
Finance/Insurance/Real Estate		817
Services		−38
Other Industries		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	4,194

[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]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1985 prices)	422.2	396.0	401.1
Nominal GDP (current prices)	1,696.7	1,585.7	1,640.3
Real GDP Growth Rate (pct.)	−4.0	−5.8	0.8
Sectoral Growth Rates: (pct.).			
Agriculture/Fishing	−4.6	−9.2	−7.1
Tourism	−9.0	−2.0	3.2
Manufacturing	−5.6	−9.3	−0.3
Energy/Gas/Water	3.0	1.3	0.3
Mining/Quarrying	3.1	−9.7	4.2
Construction	−7.5	−8.1	2.1
Wholesale/Retail Trade	−6.3	−7.9	2.4
Business/General Services	−2.4	−5.3	0.9
Transport/Storage/Communication	7.5	−3.5	1.2
Government Services	−2.2	−5.0	0.0
Population (000s)	262.5	263.1	263.9
Nominal Per Cap. GDP (official/$)	5,600	5,150	5,250
Nominal Per Cap. GDP (GDP/pop/$)	6,464	6,027	6,216
Labor Force (000s)	122.5	124.8	126.3
Unemployment Rate (pct.)	17.1	23.0	24.5
Money and Prices:			
Growth in.			
Money Supply (M2/pct.)	−4.3	8.2	1.7
Prime Lending Rate (pct.)[1]	14.50	10.75	8.75
Retail Price Index (pct. change)	6.3	6.1	1.1
Average Annual Exchange Rate (USD/BDs).			
Official	0.50	0.50	0.50
Parallel	0.50	0.50	0.50
Balance of Payments and Trade:			
Total Exports (FOB)	411.6	382.5	364.0
Exports to U.S.	53.4	62.3	N/A
Total Imports (CIF)	1,394.0	1,048.5	1,153.9
Imports from U.S.	494.1	377.3	N/A
Trade Balance	−982.5	−665.9	−789.9
Current Account Balance	−29.9	−137.9	58.7
Aid from U.S.	0.7	1.1	N/A
Aid from Other Countries	N/A	N/A	N/A
External Central Government Debt	393.8	346.3	330.6
Domestic Central Government Debt	556.8	618.3	808.5
Total Debt Service Payments (paid)	393.8	346.4	330.6

N/A—Not available.

[1] End of period.

1. General Policy Framework

Barbados is a British-style parliamentary democracy. As a result of the September 1994 general elections, the political party comprising the government is the Barbados Labour Party, headed by Prime Minister Owen Arthur. The official opposition is the Democratic Labour Party. Seated in Parliament also is a member of the National Democratic Party, as well as a few independent Members of Parliament.

As a country with a relatively narrow resource base and limited production structure, Barbados imports much of what it needs to survive, including energy, food, and most types of consumer products. Previous governments have pursued policies—including high tariffs, restrictions on entry into certain sectors of business activity (such as telecommunications and broadcasting), and laws which restrict the entry of subsidiaries or branches of foreign retail establishments—whose purpose was to protect local businesses from external competition. Those policies have had the unintended effects of making both manufacturing and many services sectors uncompetitive in terms of price (because inputs are so expensive) and contributing to the generally high-cost wage environment in Barbados. Early indications are, however, that in its efforts to reduce the high unemployment rate, the new Barbados Labor Party government will act to lower the costs of doing business here. In October 1994, the new government announced that businesses in the manufacturing, agricultural, and fishing sectors will be able to import all inputs free of all duties and taxes. The policy change should result in higher levels of goods imports, a development U.S. exporters well may be able to take advantage of.

In general, Barbados' trade policy seeks to stimulate exports of goods and services (tourism and offshore financial services), encourage domestic light manufacturing, maintain the government's revenue base through direct taxation, and actively manage foreign exchange reserves. In 1993, the United States was the leading source of imports into Barbados, followed by CARICOM, the United Kingdom, and Canada. Barbadian attitudes toward the United States and toward U.S. business are also generally favorable, as evidenced by the approximately 26 percent of the import market commanded by goods from the United States. According to U.S. Department of Commerce figures, U.S. exports to Barbados grew about 13.9 percent in 1993, to U.S. $145.5 million.

Barbados ratified the Uruguay Round Agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policy

Since 1975, the Barbadian dollar has been pegged to the United States dollar at a fixed rate of Bds. $2.00 to U.S. $1.00. Despite intermittent problems in maintaining adequate levels of international reserves, both of the major political parties have formed governments committed to avoiding a devaluation of the currency. Any impact of this policy on U.S. exports is probably positive, at least in the short term, since Barbadians can buy more United States goods and services than they would be able to if the currency were devalued. Some economists hypothesize, however, that the Barbadian currency is overvalued, which contributes to making Barbadian manufactures uncompetitive in terms of price (and perhaps quality) in markets outside Barbados and restricts the long-term potential output of the economy—which could have implications for import volumes in the long term.

The Ministry of Finance makes foreign exchange control policy, which is then administered by the Central Bank of Barbados (CBB) through its Exchange Control Division. Individuals may convert the hard-currency equivalent of U.S. $2,500 per year without special permission, if they are traveling outside Barbados, by applying to a commercial bank. Amounts in excess of U.S. $2,500 may be obtained upon application to the CBB. Profits and capital from foreign direct investment usually may be repatriated if the investment was registered with the bank at the time the investment was made. The CBB may limit or delay conversions of funds depending on the level of international reserves under its control.

3. Structural Policies

Although the Barbadian economy is generally free market-oriented, the government controls a relatively large public sector, including a number of "parastatal" entities. Pricing of goods is generally left to the market, although the prices of certain food staples, as well as utility and public transportation rates, are set by the government. The government subsidizes losses incurred by the entities—such as the monopoly dairy and the public bus system—which it partially or wholly owns, but the effect of those subsidies on U.S. exports is probably minimal. For example, milk imports face high tariffs, as they do in most countries. However, even if imports were liberalized, U.S. exporters likely would face strong competition from many other

countries with milk surpluses, such as from those in the European Union. Bulk users of utilities—such as industry—are eligible for resource discounts, but the trade effect of the subsidy is probably negligible on international markets, because of the generally higher costs of production Barbadian industry faces.

The 1992 and 1993 reform of the direct tax system broadened the tax base while lowering maximum rates—a change which resulted in an overall lower level of government revenues in the first half of 1994 (see section four). The previous government announced in April 1994 that a value-added tax (VAT) would be initiated in April 1995, which, among other things, would replace many of the indirect taxes—such as consumption taxes and stamp duties on imports—which now exist. The new government has not yet announced whether the VAT will be implemented according to the previous government's plan.

In October 1994, the new government announced that businesses in the manufacturing, agricultural, and fishing sectors will be able to import all inputs free of all duties and taxes. The policy change should result in higher levels of goods imports, a development U.S. exporters may be able to take advantage of.

In regard to purchases of consumer household durables, the government has not yet announced its policy on the amount of down payment needed, if any, to purchases these big-ticket items, many of which are imported from the United States. At one point, the previous government sought to constrain imports by making consumers put hefty down payments on installment purchases of durables. Currently, no down payment requirement is in place.

4. Debt Management Policies

The overall deficit on central government operations widened slightly during the first half of 1994, from about one percent at the end of 1993 to between one and two percent of Gross Domestic Product (GDP) at the end of June 1994. The increased deficit was due to a decline in revenues—a result of the 1993 tax reform which reduced direct levies—and not to increased expenditures. The decline in government revenues took place even as real GDP rose 3.8 percent on an annual basis in the first six months of the 1994 (from 0.8 percent in 1993). The Barbadian government has continued its concerted effort to repay foreign debt, the levels of which have declined steadily for over three years. As in the recent past, an increasing share of debt is being financed locally. As a result of high liquidity in the banking system, commercial banks and other local buyers were the main source of new credit to the government to finance the deficit during the first half of 1994. Previously, the deficit had been financed primarily through purchases by the National Insurance Scheme (akin to the Social Security System) of Treasury bonds. As a result of the government's repayments of its external debt, net foreign financing in the January–June 1994 period was negligible.

With the September 1994 election of a new (Barbados Labour Party) government, it seems unlikely that Barbados will willingly participate in a formal International Monetary Fund (IMF) program in order to obtain funds for structural adjustment in the near- to mid-term. The new Prime Minister has repeatedly said that he will not run his country according to IMF dictates. In the autumn of 1991 (under the former Democratic Labour Party government), Barbados was compelled to ask the IMF for funds to handle a severe shortfall of international reserves. In exchange, the IMF required Barbados to institute economic austerity measures to reduce government spending in ways that were politically unpopular, including cutting spending on public sector wages. Government officials have expressed their desire to continue to work with the Inter-American Development Bank and the Caribbean Development Bank on essential infrastructure projects, and relations between the Government of Barbados and those institutions appear cordial.

5. Significant Barriers to U.S. Exports

The introduction of the CARICOM Common External Tariff several years ago will continue to disadvantage imports from countries which are not CARICOM (Caribbean Community) member states—including exports from the United States. In February 1994, Barbados eliminated its "negative list" of goods which could not be imported or for which an import license was necessary, and replaced it with a higher duty. The benefit of a duty replacing an import license is that the trade barrier is transparent; previously, there was no way to foretell whether the responsible Minister would approve a particular import license application. There is no provision of Barbadian law that discriminates against U.S. exports in or of itself.

U.S. standards are generally acceptable in Barbados; the American Embassy is not aware of any cases in which Barbadian standards have acted as a trade barrier to U.S. goods exports. Barbados is a member of the GATT/Tokyo Round Agreement on Standards (Standards Code).

Barbados permits full ownership by foreigners of investments and property, although certain sectors are reserved for citizens of Barbados. 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 to purchase real property or stock which is traded on the Securities Exchange of Barbados, but permission is usually granted. A property transfer tax is levied on real property or stock transactions conducted by foreigners.

The Barbadian government must approve a license in order for foreigners to invest in utilities, broadcasting, banking, and insurance enterprises. Previous governments denied all requests by investors, both domestic and foreign, to open a television station to compete with the government-owned monopoly, but the current government has indicated that at least one new television venture will be licensed. In addition, the government has licensed only one firm to provide basic (local) telephone service and another to provide long-distance telephone service. Banking and insurance services are open to foreign direct investment provided the required level of capital is invested and prior government approval is obtained. Stock exchange membership (for traders) is closed to non-Barbadians, and only firms long-established in Barbados may be traded on the local securities exchange. This situation may change as the new government assesses ways to broaden the possibilities for attracting foreign direct investment to Barbados. Other services (such as travel) are generally open to foreign investment, although the ministries responsible for trade and for labor matters must, by law, determine if the 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. Thus, a foreign-owned firm might have to hire a Barbadian. Work permits for foreigners usually are granted only when no Barbadian is qualified to perform. Administrative proceedings involving Customs clearances are sometimes burdensome. While no special documents are required, occasional capricious or dilatory judgments by officials can slow the importation 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, or any, bid for public works projects or for critical procurements. The government must "Buy Barbados" where it can, but the Embassy has received no complaints by U.S. businesses of discrimination against U.S. goods by Barbadian goods. Neither offsets nor countertrade is used in making procurements.

6. Export Subsidies Policies

Barbados gives priority to investments which intend to manufacture, especially for export. Incentives for manufacturing are available under the Fiscal Incentives Act (1974), which does not discriminate between foreign and national ownership. Any manufacturer may qualify for a maximum 10-year tax holiday by satisfying a value-added criterion or as a so-called "enclave" (international business company, or IBC) under Barbadian law, which, by definition, exports 100 percent of its output. IBCs enjoy the most advantageous tax treatment, because the higher the level of gains and profits, the lower the tax rate. IBC tax rates range from a high of three percent to a low of one percent of net profits. However, under the Income Tax Act, any manufacturing company in Barbados—whether locally- or foreign-owned—may enjoy tax reductions which vary according to the percentage of its profits derived from export income. If a manufacturer derives more than 80 percent of its profits from exports, its effective tax rate can be reduced from a maximum of 26 percent to 2.8 percent.

Commercial and development bank financing is restricted to Barbadian citizens, but because interest rates in Barbados are generally higher than those in the United States, the subsidy element likely is nil. The Barbados Investment and Development Corporation generally limits its export promotion efforts to firms owned by Barbadians, although it may make exceptions for firms which employ Barbadian citizens regardless of ownership. In addition, the government offers export guarantee schemes offering letters of credit and credit insurance for Barbadian exporters. Also (as mentioned previously), the new Barbados government has announced that businesses in the manufacturing, agricultural, and fishing sectors will be able to import all inputs free of all duties and taxes, a measure designed to stimulate the productive sectors in Barbados.

7. Protection of U.S. Intellectual Property

The Government of Barbados has made efforts in recent years to improve the legal regime to protect, as well as to acquire and dispose of, all property rights, including intellectual property rights (IPR). Barbados is a signatory of the Paris Con-

vention of Intellectual Property Rights and the Madrid accords, and is a member of the World Intellectual 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 (e.g., rentals and sales of films on videocassettes, tee-shirt production of unlicensed copyrighted images, unlicensed use of trademarks as store names, software piracy, satellite signal piracy). Enforcement has not been an active priority of government, although the Government may initiate some challenges in court in late 1994 or the first half of 1995. Private parties may also initiate court challenges in that time frame.

Separate statutes govern and regulate IPR protection. The Industrial Designs Act 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 allows for protection of patents for 14 years. The Trademarks Act of 1981 protects marks initially for ten years with renewals possible for ten year periods. The Copyright Act protects copyrights during the life of the author and for seven years thereafter. There is no specific statutory reference to trade secrets or semiconductor chip layout designs. In 1990, a WIPO consultant made recommendations for changes in Barbados' IPR statutes and administrative and enforcement procedures which are still being considered. Embassy cannot estimate lost U.S. import opportunities related to local IPR protection standards.

8. Worker Rights

a. *The Right of Association.*—Barbados boasts one of the most advanced trade union environments in the hemisphere. Workers have the right to form and belong to trade unions and to strike, and they freely exercise these rights. There are two major unions and several smaller ones, representing various sectors of labor. The Civil Service Union, called the National Union of Public Workers (NUPW), is completely independent of any political party or the government. The General Secretary of the NUPW was a candidate of the National Democratic party, while the former Director of Education was a candidate for the Democratic Labor Party and a Cabinet Minister. The largest union, The Barbados Workers' Union (BWU), was historically closely associated with the governing Democratic Labor Party. However, in February 1994, Leroy Trotman, BWU General Secretary and President of the Caribbean Congress of Labor, resigned from the DLP while remaining in Parliament as an independent representative. Trotman resigned because the public and especially union members perceived a conflict between his role as union leader and his role as parliamentarian. The latter required him to support the government's economic stabilization and austerity measures which were viewed as setting back union achievements and harming workers. Nevertheless, one of Trotman's deputies in the BWU remained a government backbencher in parliament until he was voted out of office in September, 1994.

Trade unionists' personal and property rights are given full protection under law. Under a long-standing law, strikes are prohibited in the water, gas and electricity sectors,. However, there have been several cases of work stoppages in the electricity sector. All other private and public sector employees are permitted to strike.

There were fewer industrial actions in 1993 than 1992, despite severe cutbacks in personnel in the private sector. In the public sector, wage cuts, layoffs, and efforts to privatize state-run enterprises continued. Public, private, and union sector leaders in the summer of 1993 signed a tripartite wage policy accord that established a two- year wage freeze. Any increase in wages will be tied to productivity increases by particular workers or by particular enterprises. Critics argued that the wage policy undermined the right of unions to bargain collectively because it forestalled any new company-wide or industry-wide negotiations for wage and benefit increases. Supporters of the tripartite pact hailed it as a cooperative solution to the recession which prevailed at the time.

Trade Unions are free to form federations and are in fact affiliated with a variety of regional and international labor organizations. Leroy Trotman head of the Barbados Workers' Union, is also President of the ICFTU and President of the Caribbean Congress of Labor. The CCL is the main regional labor organization; its headquarters are in Bridgetown and it conducts many of its seminars and other programs in Barbados.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is provided by law and respected in practice. In 1993, over 25 percent of the working population was organized, but a major loss of jobs in the

economy has resulted in a reduction in union membership. The BWU reported that it alone lost about 2,000 members in 1993 in the private and public sectors as a result of adverse economic conditions. Normally, wages and working conditions are negotiated through the collective bargaining process, but this was influenced by the tripartite wage accord described in Section 8(A).

Employers have no legal obligation to recognize unions under the Trade Union Act of 1964. But most do so when a majority of their employees signify a desire to be represented by a registered union. The act expressly prohibits employers from discriminating against employees for engaging in trade union activities. However, there is no law that expressly sets out unfair labor practices by either employers or trade unions. The courts commonly award monetary compensation but rarely order re-employment.

There are no manufacturing or special areas where collective bargaining rights are legally or administratively impaired. Barbados has no specially designated export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—Force or compulsory labor is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children.*—The legal minimum working age of 16 is generally observed. Minimum age limitations are reinforced by compulsory primary and secondary education policies, which require school attendance until age 16. Occasionally, especially among migrant worker families, children assist in agricultural production during peak season. The Labor Ministry has 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.*—Minimum wages for specified categories of workers are administratively established and enforce by law. Only two categories of workers have a formally regulated minimum wage—household domestic workers and shop assistants (entry level commercial workers). Household domestics receive a minimum wage of about U.S.$32.50 per week, although in actual labor market conditions the prevailing wage is almost double that amount. There are two age-related minimum wage categories for shop assistants. The adult minimum hourly wage for shop assistants is U.S. $ 1.87 per hour; the juvenile minimum wage for shop assistants is U.S. $1.625 per hour. Agricultural workers (i.e., sugar plantation workers) receive a minimum wage as a matter of practice, but such compensation is not found in legislation.

The minimum wage for shop assistants is marginally sufficient to meet minimum living standards; most employees earn more. In 1992 an International Labor Organization (ILO) Committee of Experts (COE) cited Barbados for not adhering to the ILO Convention On Equal Remuneration in its wage differentials in the sugar industry. The COE admonished the government to ensure the application of the principle of equal remuneration for work of equal value to male and female workers in the sugar industry or to provide further information on job descriptions which might justify such wage distinction. This case was not resolved at years' end.

The standard legal work week is forty hours in five days, and the law requires overtime payment for hours worked in excess of that. Barbados accepts ILO conventions, standards, and other sectoral conventions regarding maximum hours of work. However, there is no general legislation that covers all occupations. Workers are guaranteed a minimum of three weeks 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.

Under the Factories Act of 1993, which sets out the officially recognized occupational safety and health standards, the labor ministry enforces health and safety standards and follows up to ensure that problems cited are corrected by management. Workers have a limited right to remove themselves from dangerous or hazardous job situations without jeopardizing their continued employment. The Factories Act requires that in certain sectors firms employing more than fifty workers set up a safety committee. That committee can challenge the decisions of management concerning the occupational safety and health environment. Recently, however, trade unions called on the government to increase the number of factory inspectors in order to enforce existing and proposed safety and health legislation more effectively, and to follow up to ensure that problems cited are corrected by management. Government- operated corporations in particular were accused of doing a "poor job" in health inspections of government-run corporations and manufacturing plants as a priority.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		95
Total Manufacturing		7
Food & Kindred Products	3	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		379
Banking		(1)
Finance/Insurance/Real Estate		88
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		644

[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]

	1992	1993	1994[1]
Income, Production and Employment:[3]			
Real GDP (pct. change)	2.69	3.18	[10]4.0
GDP Per Capita Income (USD)	958	1,017	[10]1,065
Percent Change	5.56	6.16	[10]4.72
Nominal GDP	6,527	7,059	[10]7,100
Sectoral GDP (pct.)	100.0	100.0	100.0
Agriculture	19.83	20.36	N/A
Manufacturing	13.90	13.57	N/A
Trade/Services	28.52	28.41	N/A
Public Administration	9.02	8.86	N/A
Mining	8.51	8.73	N/A
Transportation/Communications	9.00	9.05	N/A
Oil Industry	6.17	6.00	N/A
Others	5.05	5.02	N/A
Unemployment Rate (pct.)[6]	5.4	7.4	7.9
Money and Prices:[3]			
Money Supply (M1)	503.9	591.3	[8]643.2
Fiscal Deficit (pct. GDP)[11]	4.6	6.0	[10]6.3
Inflation (12 months)	10.5	9.3	7.5
Commercial Bank Deposits[7]	1,118.4	1,856.0	[8]2,362.7
Interest Rates (USD)			
Loans (avg. pct.)	7.6	17.4	[8]14.9
Deposits (avg. pct.)	11.7	10.1	[8]9.9
CD Time Deposits (avg. pct.)	7.5	6.6	[8]6.5
Exchange Rate (Bs/USD)[3]			
Year-end	4.10	4.48	4.70
Average	3.89	4.26	4.55

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Trade and Balance of Payments:[3]			
Total Exports (FOB)	637.6	709.7	910.0
Exports to U.S.[4]	161.2	191.0	[5]106.6
Natural Gas	122.8	90.2	[8]75.8
Tin (CIF)	107.4	83.4	[8]83.3
Other Mineral Exports (CIF)	272.5	278.6	[8]281.5
Total Imports (CIF frontier)	1,090.3	1,205.9	1,220.0
Imports from U.S.[4]	221.8	215.9	[5]76.9
Current Account Balance	−587.0	−224.0	[12]−542.0
Capital Account Balance	317.0	211.2	[12]1,316.3
Central Bank Gross Reserves (year-end)	416.9	494.8	[8]635.1
Central Bank Net Reserves (yr. end)	40.0	370.3	[8]504.5
Public Foreign Debt[9]			
Total	3,784.5	3,795.6	4,080.0
Loan Disbursements	384.5	319.2	[8]183.2
Capital Payments	106.9	119.5	[8]89.4
Interest Payments	99.5	120.6	[8]93.8

N/A—Not available.
Sources:
[1] Estimated data (Central Bank of Bolivia and UDAPE) and/or targets set by the GOB and the IMF.
[2] National Institute of Statistics (based on 1992 census).
[3] Central Bank of Bolivia.
[4] U.S. Department of Commerce.
[5] U.S. Department of Commerce as of June 1994.
[6] Based on surveys of urban areas. Data does not consider under-employment.
[7] Superintendency of Banks.
[8] Central Bank of Bolivia as of September 1994.
[9] Foreign debt of the Central Bank of Bolivia.
[10] U.S. Embassy estimate based on 1980 figures.
[11] IMF data. N.B. The IMF estimate of GDP is much lower than that reported by the Central Bank.
[12] Central Bank of Bolivia estimate as of September 30, 1994.

1. General Policy Framework

Following a prolonged period of economic instability the Government of Bolivia initiated a series of economic reforms in 1985 intended 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 to private investment, and the government entered into an IMF standby program. For four years, the Paz Zamora Administration, which took office in 1989, institutionalized and advanced these market-oriented economic reforms but limited economic growth was achieved. The Sanchez de Lozada Administration, which took office in August 1993, is pushing these market-oriented reforms further with several structural reforms of which the "capitalization" (privatization) program of six of the larger state-owned corporations is the cornerstone. In addition, the Sanchez de Lozada administration has implemented changes in the nation's Constitution and other reforms in the areas of education, popular participation, and in the administration of the executive branch. Other reforms that are under consideration include reforms in the judicial system, taxation system, political parties structures, and national pension funds.

The results of the economic reforms have been a dramatic drop in inflation (to less than 15 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 and savings.

During the next twelve to sixteen months, the Bolivian economy will run into uncertainties as adjustments will have to be made to keep pace with the economic demands and costs that the structural reforms will require. In spite of all this, the government expects that the economy will grow by about 4.0 percent in 1994 and 4.5 percent in 1995 with inflation around 7.5 percent in 1994 and 6.5 percent in 1995.

Commercial bank deposits have more than doubled since 1992 to over 2.3 billion dollars. Trade surpluses and large inflows of foreign aid have resulted in growing foreign exchange reserves. There has been a drastic increase of net reserves in the

Central Bank, reaching, since 1980, a record figure of 504.5 million dollars by September 1994, or about six months worth of imports. Exports are expected to increase by 30 percent in 1994 compared to the previous year. Positive growth since 1986 has more than offset the decline of the economy during the early eighties.

In compliance with 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 6.5 percent of the GDP in 1993 (as estimated by the IMF) and 6.3 percent in 1994 (as estimated by the American Embassy). Estimated fiscal deficit for 1995 is 3.3 percent and 4.4 percent for 1996. Central Government tax revenues came to about 13.5 percent of GDP in 1993. 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 (about 1.5 percent of GDP). Budget deficits have been covered by foreign loans and the sale of certificates of deposit by the Central Bank. The IMF has requested that the fiscal deficit in 1994 and beyond should be covered by concessional loans only. With the budget deficit shrinking, the number of certificates of deposit in circulation has decreased to only 90 million dollars worth in 1993 and the interest rate offered on the certificates has declined from 16.2 percent in 1989 to an average of 7.8 percent in 1993.

The money supply, both M1 and M2, has grown slowly since 1985 with M1 averaging around 5 percent of GDP. However, the published figure for money in circulation (643 million dollars worth of Bolivianos) is misleading since there are also millions of U.S. dollars in circulation and dollars are a legal means of exchange. Banks are allowed to keep dollar accounts and make dollar loans. Over 85 percent of the 2.3 billion dollars worth of deposits in Bolivia's 16 commercial banks are presently in dollars.

The new investment law allows contracts to be written in dollars. Interest rates have fallen over the last three years as growing confidence in Bolivia's financial stability led to excessive liquidity in the banks and as government borrowing has decreased. By September 1994 the average rate of dollar deposits had fallen to 9.9 percent and the average rate on dollar loans was down to 14.9 percent from 10.1 and 17.4 percent respectively in 1993.

2. Exchange Rate Policy

Since 1985, the official exchange rate continues to be set daily by the government's exchange house, the BOLSIN, which is under the supervision of the Bolivian Central Bank. The BOLSIN holds daily auctions of dollars. The Directors of the BOLSIN meet every day to decide the minimum rate and the number of dollars to offer for sale. The average amount of dollars offered each day is five million. Sealed bids are then collected and opened with dollars going to those bidding at or above the minimum rate. With this mechanism the Central Bank has slowly devalued the Boliviano in line with domestic inflation and inflation in Bolivia's major trading partners. The rates set by the BOLSIN cannot ignore market forces because currency exchanges in banks, hotels, exchange houses and on the street corners are legal and active. The parallel market exchange rates are always less than one percent different from the official rates.

3. Structural Policies

In 1990, the government reduced tariffs from 16 to 10 percent for all imports except for capital goods for which the tariff is 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. No import permits are required. The central government sets the prices of finished 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 non-technical 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 part-

ners hold the mining concession. Both laws are under revision to comply with the capitalization program.

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 purchasing agents sell the bid specifications, evaluate the bids and rank order the offers for the government office or corporation making the purchase.

For 1994 and beyond, the cornerstone of President Sanchez de Lozada's economic program is the capitalization (privatization) program of the six largest state-owned companies (YPFB–oil, ENDE–electricity, ENTEL - telecommunications, LAB–airline, ENFE–railroad, and ENAF - tin/antimony smelter). The capitalization program was approved by Congress in April 1994. Capitalization involves giving a (presumably) foreign partner 50 percent ownership in return for direct investment in the company. For example, if ENTEL, the telecommunication company, is determined to be worth $200 million, the GOB hopes a foreign investor would agree to make a $200 million investment over a certain period of time. The foreign investor would then own half of an enterprise worth $400 million (the Bolivian Government original assets worth $200 million, plus the investor's new investment of $200 million) and would be granted a long-term management contract and control all assets. The remaining 50 percent would be turned over to all adult Bolivians in the form of stock to be placed in individual pension accounts. The Sanchez de Lozada administration hopes capitalization will boost investment, increase output and efficiency, reduce corruption, increase fiscal revenues, and create as many as 500,000 new jobs

4. Debt Management Policies

The Bolivian government owes over $4.08 billion to foreign creditors. About 55.6 percent of that is owed to international financial institutions, mainly the Inter-American Development Bank, the World Bank and the Andean Development Corporation. About 42.8 percent is owed to foreign governments and 1.6 percent to private banks and suppliers. 85.5 percent of the foreign debt is owed by the non-financing public sector of which 65.7 percent is owed by the Central Government and local government. The external public debt owed by the state-owned corporations amounts to 19.8 percent of the total foreign debt. The public sector financing institution's foreign debt adds to 14.5 percent of Bolivia's foreign debt.

The bilateral debt payments have been rescheduled four times now by the Paris Club, the last time for an 18-month period. A fifth rescheduling is sought for the end of 1994. 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 $8.8 million by the end of 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, as part of the Andean Pact integration effort, the Bolivian Government eliminated the tariffs on all but 11 products coming from three members of the Andean Pact (Venezuela, Colombia, and Ecuador) which means that similar products coming from the United States could be at a slight price disadvantage. However, less than five percent of Bolivia's current level of trade is with those An-

dean 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 and import licensing procedures so far. The Government is currently studying the Uruguay Round Agreement, but ratification is not likely until 1995.

There are no limitations on foreign equity participation and dozens of Bolivian companies are wholly owned by U.S. investors. The new investment law essentially guarantees national treatment for foreign investors. The only restriction on foreign investment is that foreigners may not obtain mining or oil 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. In the case of the oil industry, an operational contract is signed with YPFB, the state-owned oil company, avoiding this constitutional restriction.

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

The Bolivian government promulgated two intellectual property rights laws during 1992. 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 Author) passed in April 1992 will provide IPR protection to literary, artistic and scientific works for the lifetime of the author plus 50 years. The law will protect 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 has ratified four treaties in order to join the World Intellectual Property Organization (WIPO) and the Bern, Rome, 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 executive branch is drafting a bill for congressional consideration that would raise these standards by law.

U.S. copyright industries note problems with book and software piracy, and with the pirating of satellite signals for television broadcasting, estimating 1993 losses at $13–14 million. Pirated films are also widely available, with most of them apparently coming from other countries.

8. Worker Rights

a. *The Right of Association.*—Workers may form and join organizations of their choosing. The labor code requires prior authorization to establish a union, limits unions to one per enterprise, and allows the government to dissolve unions, but the government has not enforced these provisions in recent years. While the code denies civil servants the right to organize and bans strikes in public services, including banks and public markets, nearly all civilian government workers are unionized. In theory, virtually the entire work force is represented by the Bolivian Labor Federation (COB); approximately one-half the workers in the formal economy belong to labor unions. Some members of the informal economy participate in organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible nor impose penalties.

Significant strikes in 1994 centered around annual negotiations over salaries and benefits for public employees. When the government refused to accede to union demands, strikers marched, set up roadblocks, and cut access to certain areas of the

Chapare. Additional talks produced a settlement acceptable to the workers and the strikes ended. Unions are not independent of government and political parties. Most parties have labor committees that try to influence union activity, causing fierce political battles within unions. The law places no restrictions on a union's joining international labor organizations. The COB became an affiliate of the communist-dominated World Federation of Trade Unions (WFTU) in 1988. COB leadership, apparently unable to free itself from archaic, increasingly inefficient Marxist rhetoric and practices, is being strongly challenged by the more dynamic leaders of the Confederation of Rural Workers Unions (CSUTCB), an organization dominated by coca growers of the Chapare region.

b. *The Right to Organize and Bargain Collectively.*—Workers may organize and bargain collectively. In practice, collective bargaining, defined as voluntary direct negotiations between unions and employers without participation of the government, is limited. Consultations between government representatives and labor leaders are common but there are no collective bargaining agreements as defined above. In state industries, the union issues a list of demands and the government concedes some points. Private employers often use public sector settlements as guidelines for their own adjustments, and some private employers exceed what the government grants. The government, conscious of international monetary fund guidelines, rarely grants wage increases exceeding inflation.

The law prohibits discrimination against union members and organizers. Complaints go to the National Labor Court, which can take a year or more to rule. Union leaders say problems are often moot by the time the court rules. Labor law and practice are the same in the seven special duty-free zones as in the rest of Bolivia.

c. *Prohibition of Forced or Compulsory Labor.*—The law bars forced or compulsory labor; no cases were reported.

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 in charge of mine safety, the mines, often old and operated with antiquated equipment, are particularly dangerous and unhealthy. Miners work long days, they are often underground for 24–72 hours straight. They work with no personal safety gear, in areas where respirators are needed for protection against toxic gases. Wages do not reflect the nature of working conditions that miners endure; cooperative mines pay less than $3.00 per 12-hour day. Miners are told by industry officials that the chewing of coca leaf serves as a substitute for food, water, and rest. The coca leaf, with a catalyst, releases alkaloids and cocaine. Miners work in these terrible conditions under the belief that the chewing of coca leaf makes them strong, and protects them from toxic gases and silicosis. There are no scheduled rest periods, and employers supply no food or water in the mines; miners often resort to drinking their own urine, which they also use to fuel their carbide lanterns. These working conditions that fall far below international labor and human rights standards are perpetuated by employers, politicians, the COB, and persons having a financial stake in the manufacture and sale of cocaine.

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—1993

[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		(1)
Banking		1
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		196

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

BRAZIL

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	332,000	349,000	352,000
Real GDP Growth (pct.)	−0.8	4.1	4.0
GDP (at current prices)[2]	425,000	456,000	474,000
By Sector: (pct.)			
Agriculture	11.1	12.5	N/A
Industry	35.4	38.2	N/A
Mining	1.6	1.8	N/A
Manufacturing	22.9	24.9	N/A
Construction	7.3	7.4	N/A
Public Utilities	3.6	4.2	N/A
Services	62.4	59.4	N/A
Commerce	6.8	7.6	N/A
Transport	4.2	4.5	N/A
Communications	1.5	1.7	N/A
Financial Services	9.0	9.7	N/A
Government	10.2	11.0	N/A
Rents	16.5	6.9	N/A
Other Services	14.3	18.0	N/A
Subtotal	108.9	110.1	N/A
Less: Financial Intermediation	8.9	10.1	N/A
GDP at Factor Cost	100.0	100.0	N/A
Real Per Capita GDP (USD in 1985 prices)	2,226	2,993	2,273
Labor Force (000s)	64,400	65,600	66,900
Unemployment Rate (pct.)	4.5	4.4	5.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	1,721	2,596	20.9
Interest Rate for Financing Working Capital[3]	30.7	41.2	3.9

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Personal Saving Rate[3]	24.6	38.2	2.9
Retail Inflation	1,149	2,489	23
Wholesale Inflation	1,154	2,639	24.5
Exchange Rate[4]			
Official/Commercial	12.39	326.11	0.839
Parallel	14.60	325.00	0.870
Balance of Payments and Trade:			
Total Exports (FOB)[5]	35,793	38,783	41,400
Exports to U.S. (FOB)[5]	7,120	8,028	8,300
Total Imports (FOB)[5]	20,554	25,711	28,400
Imports from U.S. (FOB)[5]	4,949	6,028	6,800
Aid from U.S.	14.6	24.9	14.6
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[6]	95,555	94,018	91,197
Debt Service Payments (paid annually)	7,253	8,453	9,975
Gold and Foreign Exch. Reserves (International Liquidity Concept)	23,754	32,211	48,000
Trade Balance	14,844	13,072	13,000
Trade Balance with U.S.	2,171	2,000	1,500

N/A—Not available.
[1] 1994 figures are estimates based on available monthly data in October 1994.
[2] GDP at market prices.
[3] Figures are actual monthly nominal rates, not changes in them.
[4] Cruzeiro reals/usd, end of year, for 1992, 1993; reals/usd, as of October 10 for 1994.
[5] Total trade. Figures for merchandise trade only not available. CIF prices for imports are not available.
[6] Nonfinancial public sector. Excludes Petrobras and Vale do Rio Doce (CVRD).

1. General Policy Framework

On July 1, 1994, Brazil introduced a new national currency, the "real" (the fifth in seven years), replacing the "cruzeiro real" at the rate of 2,750 cruzeiro reals to 1.00 real. The new currency is the centerpiece of the government's economic stabilization plan, the "Plano Real," designed to curb chronic, rampant inflation, which had reached an annual level of nearly 5,000 percent by the end of 1993. Other key elements of the stabilization plan include balancing the federal government budget, privatization of state-run industries, and strict monetary controls. Following the introduction of the new currency, nominal monthly rates of inflation fell from 50 percent in June (measured in the old currency) to 1.5 percent in September (measured in the new currency). The real rate of inflation (as measured by the IPC-r, the Plano Real's index, in reals) is higher than in 1993: 15.87 percent for the first nine months of 1994 vs. 13.38 percent for all of 1993.

The stabilization plan under which the real was introduced established quantitative targets on the expansion of the monetary base. Monetary policy is also constrained by the need to maintain positive real interest rates in order to roll over the domestic government debt and to prevent capital outflow. High interest rates, however, aggravate the fiscal deficit. Brazil has suffered structural deficits for many years. Provisions of the 1988 Constitution which mandate substantial revenue transfers to states and municipalities, as well as mandatory federal expenditures, leave the government with discretionary control of only about 10 percent of revenues collected.

Long-term stabilization will require structural reforms and revision of Brazil's 1988 Constitution. The constitutional review process which began in late 1993 expired in May 1994 with virtually no reforms adopted. Among the reforms considered by the Constitutional Review Congress were fiscal reforms, including a redistribution of federal, state and municipal government responsibilities, simplification of the tax system, privatization of the state-owned telecommunications and petroleum monopolies, elimination of the distinction between foreign and national capital, and permitting foreign investment in mining. Broad consensus exists on the need for constitutional reform to rectify the economic distortions of the current constitution, but there are significant differences regarding the specific reforms needed. Now that the constitutional review process is over, approval of constitutional reforms will re-

quire two votes each by the upper and lower chambers of the Brazilian Congress; a 60 percent majority is required for all four votes.

The process of economic and trade liberalization begun in 1990 slowed during 1993 and 1994, but has nevertheless produced significant changes in Brazil's trade regime, resulting in a more open and competitive economy. Imports are increasing in response to lower tariffs and reduced non-tariff barriers, as well as the strength of the real relative to the dollar, and are now composed of a wide-range of industrial, agricultural and consumer goods. Access to Brazilian markets in most sectors is generally good, and most markets are characterized by competition and participation by foreign firms through imports, local production and joint ventures. Some sectors of the economy, such as the telecommunications, petroleum and electrical energy sectors, are still dominated by the government, and opportunities for trade and investment are severely limited.

Brazil and its Southern Common Market (Mercosul) partners Argentina, Uruguay and Paraguay concluded negotiations in August 1994 for a common external tariff (CET) which went into effect on January 1, 1995. The CET levels for most products range between zero and 20 percent. The Brazilian government unilaterally lowered tariffs on some 6,000 items to the CET levels in September of 1994, as part of its anti-inflationary effort. With the exception of tariffs on informatics products and some capital goods, the maximum Brazilian tariff level is now 20 percent; the most commonly applied tariff is 14 percent. When the CET enters into force in the four Mercosul countries in January 1995, all revisions to the tariff schedule will have to be negotiated among the four partners.

The Government of Brazil ratified the Uruguay Round Agreements in 1994 and became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policy

Brazil has three exchange rates: a commercial rate, a tourist rate and a semi-official parallel rate. The commercial rate is used for import-export transactions registered at the Central Bank and financial transactions linked to external debt. The tourist, or floating rate, is used for individual transactions such as unilateral transfers, travel, tourism, and transactions involving education and training abroad. The parallel rate is also used for individual transactions, but they are not recorded. All three rates fluctuate; the spread between them has diminished since the introduction of the new currency.

The measure introducing the real established parity with the dollar. However, a surplus of dollars, caused by financial activities of exporters and foreign investors, resulted in the steady appreciation of the real relative to the dollar. The Central Bank did not intervene until September, when the real reached 0.85 to one dollar. Subsequent Central Bank interventions indicate that this level is the Bank's floor.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is far from transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. To implement economic policies rapidly, the government has resorted to issuing decrees rather than securing congressional approval of legislation. These decrees are frequently challenged in the courts and a number have been declared unconstitutional. The regulatory instability makes planning difficult. In June 1994 a new antitrust law was passed to prevent "abusive pricing." The law will likely face a legal challenge.

The tax system in Brazil is extremely complex, with a wide range of income and consumption taxes levied at the federal, state and municipal levels. Both payment and collection of taxes is burdensome. An effort to streamline the tax system was begun in 1991; considerable progress has been made to improve collections. Significant further reforms will require constitutional revision.

The privatization program initiated in 1990 to reduce the size of the government and improve fiscal performance slowed to a near halt during 1994. The planned privatization of part of the electricity sector was abandoned entirely, while a number of planned auctions of financially troubled or non-competitive state-owned companies were delayed in response to lukewarm investor interest and low price offers. The pace of privatizations is expected to increase significantly during 1995, under the administration of President-elect Fernando Henrique Cardoso, who took office on January 1, 1995.

4. Debt Management Policies

Brazil's external debt totaled approximately $146 billion at the end of 1993. Of this total, about $34 billion is medium-term commercial bank debt owed by the government. Foreign private bank debt is $63 billion, of which the U.S. share is $24

billion. In 1993, Brazil's debt service payments represented 4 percent of its gross domestic product, and 42 percent of its export earnings.

In April 1994, the government concluded a debt renegotiation agreement with foreign commercial banks. The agreement included exchanging $35 billion in medium-term commercial bank debt for new instruments. The agreement also included rescheduling outstanding arrears. Unlike past Brady Plan debt exchanges, the Brazilian deal was closed without the support of the official international financial community since the Brazilian government was unable to reach an agreement with the IMF for a standby program.

Brazil did not reach an agreement with the Paris Club during 1994 to reschedule official debt. Under Brazil's 1992 agreement with the Paris Club, further debt rescheduling is contingent upon the government concluding a standby agreement with the IMF.

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. Import licenses, which until 1990 were a significant barrier to imports, are now used primarily for statistical purposes and generally are issued automatically within five days. However, obtaining an import license can occasionally still be difficult. For example, the Brazilian government has refused to grant an import license for lithium for nearly two years. In January 1992, a standard import license fee of approximately $100 was instituted, replacing a 1.8 percent ad valorem fee.

The Secretariat of Foreign Trade's computerized trade documentation system (SISCOMEX), scheduled to be fully operational in January 1995, will further streamline filing and processing of import documentation.

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. In some areas, such as construction engineering, foreign companies are prevented from providing technical services unless Brazilian firms are unable to perform them.

Many service trade possibilities are restricted by limitations on foreign capital under the 1988 Constitution. In particular, services in the telecommunications, oil field, and mining industries are severely restricted. Foreign financial institutions are restricted from entering Brazil or expanding pre–1988 operations. Restrictions exist on the use of foreign-produced advertising materials.

Foreign legal, accounting, tax preparation, management consulting, architectural, engineering, and construction industries are hindered by various barriers. These include forced local partnerships, limits on foreign directorships and non-transparent registration procedures.

Foreign participation in the insurance industry 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).

Other legal and administrative obstacles to foreign services suppliers are being eased. In January 1992, the government announced rules which allow foreign remittances of trademark license fees and technology transfer payments covered by franchising agreements. The change effectively ended 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 faces various prohibitions in petroleum production and refining, internal transportation, public utilities, media, real estate, shipping, and various other "strategic industries." In other sectors, such as the auto industry, Brazil limits foreign equity participation and imposes local-content requirements. Foreign ownership of land in rural areas and adjacent to international borders is prohibited.

Foreign investors are denied national treatment pursuant to the constitutional distinction between national and foreign capital.

Informatics: Under the 1991 Informatics Law, prohibitions or requirements for government prior review for imports, investment, or manufacturing by foreign firms in Brazil were eliminated. However, import duties remain high (up to 35 percent) on informatics products, and Brazilian firms receive preferential treatment in government procurement and have access to certain fiscal benefits, including tax reductions. For a foreign-owned firm to gain access to most of these incentives, it must commit to invest in local research and development and meet export and local training requirements. Rules governing computer software are contained in Law 7646 (the software law) of December 1987. The software law requires that all software

be "catalogued" by the Informatics Secretariat of the Ministry of Science and Technology prior to its commercialization in Brazil, and that in many cases software must be distributed through a Brazilian firm. The law contains provisions to deny cataloguing of foreign software if the Secretariat determines there is a similar program of Brazilian origin. However, this provision is no longer applied. A draft law has been introduced into Brazil's Congress to eliminate the requirement for cataloguing, the test of similarities, and the requirement that software to be run on Brazilian-origin hardware must be distributed by a Brazilian firm.

Government Procurement: Given the significant influence of the state-controlled sector due to its large size, discriminatory government procurement policies are, in relative terms in Brazil's market, an important barrier to U.S. exports. For example, discriminatory government procurement practices in the computer, computer software and digital electronics sector may have significant adverse market access implications for U.S. firms, particularly firms not established in Brazil.

Article 171 of the 1988 Constitution provides for government discrimination in favor of "Brazilian companies with national capital." On June 21, 1993, Brazil adopted procurement legislation, Law Number 8666, requiring open bids based upon the lowest price. However, in late 1993 the government introduced new regulations which allow consideration of non-price factors and give preferences to telecommunications, computer, and digital electronics goods produced in Brazil, and stipulate local content requirements for eligibility for fiscal benefits. In March 1994, the government issued Decree 1070 regulating the procurement of informatics and telecommunications goods and services. The regulations require federal agencies and parastatal entities to give preference to locally produced computer products based on a complicated and non-transparent price/technology matrix. It is not possible to estimate the economic impact of these restrictions upon U.S. exports. However, free competition could provide significant market opportunities for U.S. firms.

Brazil is not a signatory to the GATT Government Procurement Code.

6. Export Subsidies Policies

In general, the Brazilian Government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and to encourage the use of Brazilian inputs in exported products. Several of these programs have been found to be countervailable under U.S. countervailing duty provisions in the context of specific subsidy/countervailing duty cases. Incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export, excise and sales tax exemptions on exported products, and excise tax rebates on materials used in the manufacture of export products. Exporters also enjoy exemption from withholding tax for remittances overseas for loan payments and marketing, and from the financial operations tax for deposit receipts on export products. In October 1994, the Brazilian government issued Decree Law 674, granting exporters a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. PROEX is intended to eliminate the distortions in foreign currency-linked lending caused by Brazil's high rates of inflation and currency depreciation. Under the program, the government provides interest rate guarantees to commercial banks which finance export sales, thus ensuring Brazilian exporters access to financing at rates equivalent to those available internationally. Capital goods, automobiles and auto parts, and consumer goods are eligible for financing under the PROEX program.

7. Protection of U.S. Intellectual Property

Brazil's regime for the protection of intellectual property rights is inadequate. Serious gaps exist in current statutes with regard to patent protection for pharmaceuticals, chemicals, and biotechnological inventions; trademarks and trade secrets; and copyrights. Legislation has been pending before the Brazilian Congress for several years to address many of these areas. The Brazilian government has made a commitment to bring its intellectual property regime up to the international standards specified in the Uruguay Round Trade Related Aspects of Intellectual Property (TRIPs) Agreement. As a result of this commitment, the U.S. government terminated the Special 301 investigation initiated in May of 1993, and revoked Brazil's designation as a "priority foreign country." Brazil remains under Section 306 monitoring.

Brazil is a signatory to the GATT Uruguay Round Accords, including the TRIP's Agreement. Brazil is a member of the World Intellectual Property Organization and a signatory to the Berne Convention on Artistic Property, the Universal Copyright Convention, the Washington Patent Cooperation Treaty, and the Paris Convention on Protection of Intellectual Property.

Patents: Brazil does not provide either product or process patent protection for pharmaceutical substances, processed foods, metallurgical alloys, chemicals, or biotechnological inventions. The Industrial Property Bill passed in 1993 by the Chamber of Deputies and currently pending before the Senate would recognize the first four of these categories and extend the term for product patents from 15 to 20 years. The Brazilian government announced in early 1994 that it would support amendments to the bill which would bring its provisions into conformity with TRIPs provisions, including those on compulsory licensing, domestic working requirements and parallel imports.

Trade Secrets: Brazil lacks explicit legal protection for trade secrets, although a criminal statute against unfair trade practices can, in theory, be applied to prosecute the disclosure of privileged trade information. The Industrial Property Bill pending in Congress includes civil penalties and injunctive relief for trade secret infringement.

Trademarks: All trademarks, as well as licensing and technical assistance agreements (including franchising), must be registered with the National Institute of Industrial Property (INPI). Without such registration, a trademark is subject to cancellation for non-use. The pending Industrial Property Bill includes significant trademark revisions which will improve trademark protection.

Copyrights: While Brazil's copyright law generally conforms to international standards, the 25-year term of protection for computer software falls considerably short of the Berne Convention standard of the life of the author plus 50 years. Enforcement of copyright laws has been lax. Current fines do not constitute an adequate deterrent to infringement. The U.S. private sector estimates that piracy of video cassettes, sound recordings and musical compositions, books and computer software continues at substantial levels. In the last two years, enforcement of laws against video and software piracy has improved, and foreign firms have had some success in using the Brazilian legal system to protect their copyrights. The government has also initiated action to reduce the importation of pirated sound recordings and videocassettes.

Semiconductor Chip Lay-out Design: A bill introduced in 1992, and still pending before the Congress, will protect the lay-out designs of integrated circuits. Amendments to the draft law are expected to bring its provisions into conformity with the TRIPs text.

Impact on U.S. Trade: In early 1994, the U.S. pharmaceuticals industry estimated losses of $500 million due to inadequate intellectual property protection. The U.S. software industry claims losses of $268 million, and estimates that less than 50 percent of the software in use in Brazil was legally obtained. The Motion Picture Export Association of America estimates its annual losses due to motion picture piracy in Brazil at $39 million.

8. Worker Rights

a. *The Right of Association.*—Brazil's Labor Code provides for union representation of all Brazilian workers (excepting military, military police and firemen), but imposes a hierarchical, unitary system, funded by a mandatory "union tax" on workers and employers. Under a restriction known as "unicidade" (one per 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. The 1988 Constitution retains many provisions of the 1943 Labor 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 have permitted new unions to form and, in many cases, compete 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 retain the right to review the registration of new unions, and adjudicate conflicts over their formation. Otherwise, unions are independent of the government and of political parties. Approximately 20 to 30 percent of the Brazilian workforce is organized, with just over half of this number affiliated with an independent labor central. (Mandatory labor organization under the Labor Code encompasses a larger percentage of the workforce. However, many workers are believed to have minimal if any contact with these unions.) Intimidation of rural labor organizers by landowners and their agents continues to be a problem.

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) is punishable by law.

b. *The Right to Organize and Bargain Collectively.*—The right to organize is provided 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. Under current Brazilian law, however, the scope of issues subject to collective bargaining is narrow and the labor court system exercises normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. 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. 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 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, unions in the Manaus free trade zone, rural unions and many unions in smaller cities are relatively weaker vis-a-vis industry compared to unions in the major industrial cities of the southeast.

c. *Prohibition of Forced or Compulsory Labor.*—Although 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 originate in 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 extensive improvements in enforcement activity.

d. *Minimum Age of 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 indicate that nearly three million children 10 to 14 years of age are employed. Of these, 46 percent work eight hours or more per day, with most earning no more than one minimum salary ($70 to $100 per month).

e. *Acceptable Conditions of Work.*—Unsafe working conditions are prevalent throughout Brazil. Enforcement of the occupational health and safety standards established by the Ministry of Labor is weak due to insufficient resources for inspection. There are credible allegations of corruption within the enforcement system. Workers, or their union, can file a claim with the regional labor court if a workplace safety or health problem is not resolved directly with the employer, although in practice this is frequently a cumbersome, protracted process.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment is concentrated heavily in the transportation equipment, food, chemicals, petroleum distribution and electric/electronic equipment industries. Labor conditions in industries owned by foreign investors generally meet or exceed the minimum legal standards established under Brazil's Labor Code.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		738
Total Manufacturing		12,574
Food & Kindred Products	1,596	
Chemicals and Allied Products	2,144	
Metals, Primary & Fabricated	673	
Machinery, except Electrical	1,668	
Electric & Electronic Equipment	715	
Transportation Equipment	2,265	
Other Manufacturing	3,514	
Wholesale Trade		96
Banking		1,139
Finance/Insurance/Real Estate		1,946
Services		80
Other Industries		334
TOTAL ALL INDUSTRIES		16,908

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

CHILE

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1993 exchange rate)	41,100	43,700	45,400
GDP (at current prices)	40,800	43,700	48,500
Real GDP Growth (peso terms)	11.0	6.3	4.0
Real GDP by Sector:			
Agriculture	2,930	2,970	3,050
Utilities	1,180	1,240	1,280
Manufacturing	7,260	7,550	7,970
Construction	2,200	2,520	2,580
Fishing	460	470	550
Mining	3,350	3,390	3,400
Trade	6,400	6,980	7,150
Transport/Communications	3,100	3,350	3,650
Other (includes services)	14,220	15,230	15,770
Real Per Capita GDP (USD)	3,030	3,170	3,250
Labor Force (000s)	4,844	5,095	5,200
Unemployment Rate (pct.)	4.9	4.6	5.6
Money and Prices: (annual percentage growth)			
Money Supply (M1A)	40.3	19.1	17.0
Interest Rate[2]	8.1	9.2	9.2
Wholesale Inflation (12-month)	8.9	6.7	9.0
Consumer Price Inflation (12-month) 12.7	12.2	10.5	
Average Exchange Rate: (pesos/USD)			
Interbank Rate (actual)	363	404	423
Mid-Point of Crawling Peg	390	430	460
Balance of Payments and Trade:			
Total Exports (FOB)	9,986	9,202	10,700
Exports to U.S. (FOB)	1,649	1,655	1,800
Total Imports (FOB)	9,237	10,181	10,800

Key Economic Indicators—Continued

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

	1992	1993	1994
Imports from U.S. (CIF)	1,985	2,477	2,500
Aid from U.S.[3]	4	4	4
Public Foreign Debt (yearend)	9,623	9,035	8,800
Public Foreign Debt Service[4]	1,400	1,300	1,400
Gold and Foreign Exch. Reserves	9,009	9,759	10,700
Trade Balance	749	−979	−100
Trade Balance with U.S.	−336	−822	−700

[1] 1994 figures are estimates based on data through August.
[2] Real (i.e., in addition to inflation) annualized rate for 90–365 day loans.
[3] Fiscal years, including all of FY–1994. All grants.
[4] Estimate. Includes non central government debts (e.g., Central Bank, public corporations) and private debts with public guarantees.

1. General Policy Framework

Chile's economic expansion is now into its twelfth year. The most notable developments over the last several years have been the diversification of the export base and the renewed ability of Chilean firms to obtain capital from international markets. Although copper remains the country's largest export earner and foreign investment pours into the mining sector, exports of fish, forestry products, and fresh fruit are important as well. Chile's credit rating is the highest in Latin America; since Chile received an investment-grade rating in 1992, Chilean firms have financed investment with foreign capital by borrowing, issuing bonds, and selling stock abroad. Domestically financed investment is also significant and growing, and many Chilean firms are expanding abroad.

The democratic governments of Patricio Aylwin (1990–1994) and Eduardo Frei (1994-present) have emphasized the need to maintain macroeconomic stability and the economy's export orientation. The government has generated fiscal surpluses in each of the years 1990–1993, and it is projected to do so in 1994. In the last few years, the government and the independent Central Bank have privatized some firms and gradually loosened foreign exchange restrictions, although they remain concerned about the potential effects on the exchange rate of rapid foreign currency inflows. In 1994, new laws liberalized capital markets, fixed a framework for environmental regulation, and made money laundering a crime. A bill pending in Congress would allow banks to enter new businesses. Chile has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

The Central Bank's monetary policy targets real interest rates. It has resisted calls to lower interest rates as growth rates fell in 1993 and 1994, emphasizing the need to prevent long-term domestic spending growth from outpacing that of the economy as a whole. The authorities have sought to maintain an exchange rate which provides incentives to invest in export industries, although rapid capital inflows since 1991 have complicated their task by contributing to peso appreciation.

Indicators for 1994 suggest that growth will be around four percent as a result of decelerating domestic spending. Growth is being led by exports, with domestic trade and construction (which boomed in 1993) facing difficulties. Inflation will be near the government's target range of 9–11 percent, while unemployment will average between five and six percent. Because of an unexpected increase in the price of copper, the trade balance will be very close to even, and the current account deficit will be around 2.5 percent of GDP. For 1995, preliminary Central Bank projections envision growth of over five percent, inflation of nine percent, a slightly positive trade balance, and a current account deficit of three percent of GDP. Keeping inflation on a downward path remains a high priority, but the authorities have cautioned that the indexation of the economy makes rapid gains unlikely in the short-term.

2. Exchange Rate Policy

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 peg is adjusted to reflect inflation differentials between Chile and its major trading partners. Although the path for the crawling peg is determined a month in advance, the individual cross rates are determined daily, depending on market rates for the dol-

lar, mark and yen. The official interbank rate is allowed to move within a 20 percent band around the crawling peg.

Exporters must remit most (75 percent or all but $15 million, which ever is greater) of their foreign currency earnings through the interbank market. The Central Bank intervenes in the interbank market on different occasions to reduce short-term fluctuations. A legal parallel market operates, with rates typically within one percent of the interbank rate. The peso appreciated against the currencies of Chile's trading partners by around 20 percent in real terms between 1991 and 1993. 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 1994, the peso appreciated by another three percent as a result of the dollar's weakness in international markets.

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 five.)

Tax Policies: An 18 percent value-added tax (VAT) applies to all sales transactions and accounts for 43 percent of total tax revenue. There is an 11 percent tariff on most imports. There are duty-free zones in Iquique and Punta Arenas and a limited duty-free zone in Arica; less than three percent of Chilean imports pass through these zones. Personal income tax rates will fall modestly in 1995; the top marginal rate will fall from 48 to 45 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. The most heavily regulated areas are utilities, the banking sector, 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 recent 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.

4. Debt Management Policies

Chile's vigorous economic growth and careful debt management over the last decade have meant that foreign debt is no longer a major problem. The government restructured 1991–94 foreign debt maturities at market interest rates with its creditor banks in September 1990. As of mid-1994, Chile's public and private foreign debt stock stood at $19.9 billion. In every year since 1987, public sector debt has declined and private sector debt has risen, the latter a result of firms borrowing abroad to finance investment. Public sector debt is now less than private sector debt, and in the last few years the overall debt level as a percentage of GDP has remained relatively stable at around 40 percent. (In 1985, the debt-to-GDP ratio was 125 percent.)

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. Chile agreed in the GATT Uruguay Round not to raise its tariff rates above 25 percent (except for a few agricultural products, for which the rate is 31 percent). The uniform Chilean tariff rate is currently 11 percent. Chile has free trade agreements providing for duty-free trade in most products by the late 1990s with Mexico, Venezuela, and Colombia, and it was expected to complete another such agreement with Ecuador in late 1994. In 1994, Chile also began negotiations on a trade-liberalizing agreement with the Mercosur nations (Argentina, Brazil, Paraguay, and Uruguay). Tariffs also are lower than 11 percent for certain products from member countries of the Latin American Free Trade Association and products imported by diplomats and the Chilean military. 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 imported products plus the 11 percent import duty. This compounding adds an effective two percent to the duty charged on the imported good. Duties may be deferred for a period of seven years

for capital goods imports purchased as inputs for products to be exported. (See section 2.)

Automobiles are subject to additional taxes based on value and engine size. The engine tax applies to vehicles with engines of over 1,500 cc., while the value tax is 85 percent of the CIF value over a certain level (around $9,700 in 1994). These taxes discourage sales of larger and more expensive vehicles, including most U.S.-made automobiles. Despite these taxes, sales of U.S.-made vehicles are growing.

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. Imports of used automobiles are prohibited.

Investment Barriers: Chile's foreign investment statute, Decree Law 600, sets a standard of treatment of foreign investors in the same manner as Chilean investors. Foreign investors using D.L. 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms of their investments. These terms include the rights to repatriate profits immediately and capital after one year, to exchange currency at the official interbank exchange rate, and to choose between either national tax treatment or a guaranteed rate for the first ten years of an investment. Approval by the Foreign Investment Committee is routine. Since 1991, investors have been required to deposit some (currently 30 percent) of the 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 governments, although U.S. firms generally can claim credits for taxes paid in Chile.

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 keep all of their export earnings abroad.

There are also examples of less than national treatment. In an emergency, D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in order to prevent distortion of local financial markets. The Central Bank has never exercised this power.

Other examples of less than national treatment are 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.

Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean.

A freeze in force for the last decade on the issuance of new bank licenses means that would-be foreign (or domestic) entrants must acquire 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 above, which protect their Chilean production. The manufacturers also receive tax benefits for the use of local inputs and for exporting auto components. Despite these measures, imports make up around 85 percent of the 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 Nontariff Barriers: The main trade remedies available to the Chilean Government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands. Chile's most significant nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, wheat flour, vegetable oils, and sugar. Surtaxes are levied on imports of these commodities on top of the across-the-board 11 percent tariff in order to bring import prices up to an average of international prices over previous years.

The Chilean Government may apply country-specific duties on products that it determines to have received subsidies from exporting countries and on products that

it determines to have been dumped at below-market prices. As of late 1994, only imports of certain textiles and garments from selected Asian countries and imports of one industrial chemical are subject to these duties. Low world prices have led Chile to establish minimum customs values for milk, spun cotton, 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. 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 many categories of products are not manufactured in Chile, purchasing decisions by most state-owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers. Government officials have on occasion urged some government 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 exporters. 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.

In order to encourage forestation of land that would be of marginal agricultural use, 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) expires in March of 1995, and discussions are ongoing about its possible renewal or revision.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is basically compatible with international norms, and industry representatives have welcomed government enforcement efforts. Continuing deficiencies in patent protection, however, have kept Chile on the USTR Special 301 watch list since 1989. Efforts to enforce intellectual property rights in Chilean courts have been successful. Chile does not have an explicit statute for protecting the design of semiconductors nor does it have comprehensive trade secret protection. Chile belongs to the World Intellectual Property Organization. Contracts may set fees and royalties only as a percentage of sales, and 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 it falls short of international standards. The law provides a patent term of 15 years from the date of grant. (The term in the United States is 17 years.) The law also does not consider plant and animal varieties or surgical methods to be patentable. Most importantly, the law does not provide pipeline protection for pharmaceutical patents filed abroad before the law's promulgation. Because of the lack of pipeline protection and the long lead times involved in the marketing of new pharmaceutical products, the law will not prevent local companies from pirating foreign pharmaceutical patents of products introduced into the market for several more years. In addition, the registration procedures required by the health ministry to market new drugs are more

onerous for first-to-file firms, which tend to be foreign firms. Payments for the use of patents may not exceed five percent of sales.

Copyrights: Piracy of video and audio tapes has been subject to criminal penalties since 1985. Chilean authorities have taken aggressive enforcement measures against video, video game, audio, and computer software pirates in recent years, and piracy has declined in each of these areas. In the mid-1980s, the software piracy rate was believed to be around 90 percent; it is currently estimated at around 70 percent. The decline is in part the result of a campaign by the industry, with the cooperation of the courts and the government, to suppress the use of pirated software. Improved access to authorized dealers and service has also helped to reduce the rate of piracy. Industry sources say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. In 1992, the Chilean Congress approved legislation that extended the term of copyright protection from 30 years to 50 years. U.S. recording industry officials have said that the copyright law grants producers less favorable treatment vis-a-vis authors than is the international norm.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of 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: Although it is difficult to accurately estimate damages, most observers believe that the U.S. pharmaceutical industry has suffered most from the infringement of its intellectual property (in this case, patent) rights in Chile. U.S. software industry sources have estimated that some $65 million worth of pirated software was used in 1993, although only a fraction of this amount would go directly to U.S. exporters if piracy were eliminated.

8. Worker Rights

a. *The Right of Association.*—Most workers have a right to join unions or to form unions without prior authorization, and around 11 percent of the work force belongs to unions. Government employee associations operate like unions in some ways, but they do not have the same legal protection as unions. Legislation has been introduced to give 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 trying 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 and Frei governments have encouraged) informal union-management discussions to reach collective agreements outside the regulated bargaining process. These agreements have the same force as formal contracts.

Temporary workers—defined in the labor code as agricultural, construction, and port workers as well as entertainers—may form unions, but their right to collective bargaining is restricted. Some 700,000 workers, including most agricultural workers, are limited to informal negotiations.

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 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 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 that 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. The minimum wage, currently around $125 per month, is set by government, management, and labor representatives, or by the government if the three groups cannot reach agreement. 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		229
Food & Kindred Products	30	
Chemicals and Allied Products	119	
Metals, Primary & Fabricated	-181	
Machinery, except Electrical	1	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	169	
Wholesale Trade		204
Banking		374
Finance and Insurance		1,185
Services		(1)
Other Industries		628
TOTAL ALL INDUSTRIES		2,869

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

COLOMBIA

Key Economic Indicators

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

	1992	1993[1]	1994[2]
Income, Production and Employment:			
Real GDP	23,626	24,872	26,115
Real GDP Growth (pct.)	3.8	5.3	5.0
GDP (at current prices)	45,358	49,396	54,443
By Sector:			
Agriculture	7,111	6,933	7,501
Energy/Water	1,210	1,580	1,741
Manufacturing	8,814	9,127	9,941
Construction	2,577	2,985	3,342
Rents	3,214	2,976	3,392
Financial Services	5,195	5,799	6,386
Other Sectors	17,238	19,996	22,140
Real Per Capita GDP (at current prices)	1,307	1,431	1,562
Labor Force (000s)	11,300	11,500	11,700
Unemployment Rate (pct.)	10.3	7.9	10.0
Money and Prices (annual percentage growth)			
Money Supply (M2: an. pct. gwth.)	39.4	31.7	28.0
Base Interest Rate (pct.)	37.2	35.8	38.0
Personal Savings Rate (pct.)	7.5	7.0	6.5
Retail Inflation (pct.)	25.1	22.6	22.0
Wholesale Inflation (pct.)	17.9	13.2	18.0
Consumer Price Index	268.1	325.7	397.7

Key Economic Indicators—Continued

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

	1992	1993[1]	1994[2]
Exchange Rate (USD/Peso)			
Official	811.8	917.3	988.0
Market Rate	738.0	802.7	865.0
Balance of Payments and Trade:			
Total Exports (FOB)	6,909	7,111	8,333
Exports to U.S.	2,466	2,641	3,833
Total Imports (CIF)	6,513	9,841	10,609
Imports from U.S.	2,434	3,469	3,712
Aid from U.S.	48.5	16	1
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	13,601	13,206	12,600
Debt Service Payments (paid)	3,451	3,141	3,667
Gold and Foreign Exch. Reserves	7,728	7,932	8,381
Trade Balance	396	−2,730	−2,275
Trade Balance with U.S.	32	−828	−879

N/A—Not available.
[1] Preliminary.
[2] Data for 1994 are estimates based on latest reports from Colombian Government sources.
[3] U.S. aid is for fiscal years 1992, 1993 and 1994.

1. General Policy Framework

The Administration of President Ernesto Samper took office in August 1994, following the four-year term of President Cesar Gaviria. The Gaviria Administration was responsible for a profound economic liberalization program known as "apertura." That program made great strides in opening the Colombian economy to international trade and investment by reforming foreign exchange and tax legislation, the labor code and the foreign investment regime. In addition to slashing tariffs from an average of 42 percent in 1990 to 12 percent in 1992 and eliminating many nontariff barriers, apertura also led to great strides in the privatization of state enterprises such as ports and railroads. Although President Samper has said he will take no backward step in the apertura process, he will try to reduce some of the economic dislocations, especially in agriculture, caused by the rapid economic policy changes. Colombia has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

Concurrent with the economic reform program, the Colombian government has continued its policy of gradually reducing inflation. Inflation, as measured by the CPI, was brought down to 22.6 percent in 1993; it was 32.4 percent in 1990. Government economists forecast that the inflation rate will be between 21 and 22 percent in 1994. The CPI has not dropped more quickly in recent years primarily because of inflationary pressures stemming from the strong inflows of foreign capital, the policy of indexing the wages of Colombian workers, and the desire of the government to avoid the adverse impact on the economy a shock treatment would have.

In 1990 and 1991 the government resorted to restrictive monetary and fiscal policies to cope with inflation. In late 1991 monetary policy was directed at overcoming the effect of large inflows of foreign capital while maintaining the stability of the peso. Monetary policy in the period between 1990 and 1992 was impacted by developments in the foreign exchange sector. The high domestic interest rates caused by restrictive monetary policies boosted the expected yield from Colombian assets. The large capital inflows that followed would have caused the money supply to increase, complicating monetary policy, if the Central Bank had not taken action. That action came in the form of a June 1991 decree mandating that foreign exchange receipts would be redeemed for exchange certificates, denominated in U.S. dollars. Government authorities also increased the tax on unilateral transfers of foreign exchange to residents of Colombia from abroad to 10 percent in mid-1992.

The exchange certificate system was discontinued in January 1994. In March 1994 the Central Bank announced regulations to limit internal and external credit availability to private Colombians. The measures were aimed at reducing inflationary pressures.

Monetary policy in the Samper government will be aimed at the further gradual reduction of inflation while avoiding abrupt movements in the exchange rate of the peso. The Samper administration is sympathetic to complaints by Colombian export-

ers that the strong peso has adversely affected the price competitiveness of Colombia's exports, especially nontraditional exports. Days after President Samper took office the Central bank amended regulations to discourage the public and private sectors from incurring more short-term debt in foreign currencies.

Colombia's fiscal policy over the last four years has been designed to achieve four principal objectives: (1) the establishment of a macroeconomic foundation for sustainable growth, (2) the direction of public resources to those sectors of the economy which can best support the social development and competitiveness of the nation, (3) the restructuring of the budgetary system to increase constitutionally-mandated transfers to states and municipalities, and (4) the decrease in reliance on import tariffs as a source of revenue.

2. Exchange Rate Policy

In January 1994 the Central Bank moved to free market exchange rates for Colombia's peso. Since that time the daily quotation is set by the Banking Superintendency, and is based on quotations from certain commercial banks and financial corporations.

Colombia's exchange rate policy underwent significant reforms following the introduction of the apertura program in 1990. In 1991 Colombian residents were permitted to hold foreign currency and maintain foreign bank accounts. Furthermore, the Central Bank relaxed the total control over the foreign exchange regime it had exercised; the primary aim was the development of a foreign exchange system governed by market forces. Also, the crawling peg system, introduced in 1967, was replaced by a floating rate system under the control of the Central Bank.

In September 1993 the foreign exchange system was further liberalized by the introduction of streamlined administrative procedures and the reduction of the number of transactions that had to be done through commercial banks or other sanctioned intermediaries. In January 1994 the Central Bank moved to the free market exchange system in which the peso may move within a band 7.5 percent above or below the daily quotation. The Central Bank may intervene by buying or selling its instruments in order to keep the currency within the band. The strength of the peso in recent years has improved price competitiveness of U.S. exports to Colombia and has resulted in a significant shift in the balance of bilateral trade.

3. Structural Policies

Taxes: Part of the apertura program consisted of the reform of Colombia's tax system. Tax reform legislation passed in 1990 and 1992 reduced the dependence of the central government on import tariffs as a source of revenue. As a result, import tariffs fell from 42 percent in 1990 to 12 percent in 1992 while the VAT increased from 10 percent to 14 percent in the same period. The Colombian government imposes a "war tax" on producers of crude oil and minerals, two sectors with heavy foreign participation. Tax collection showed improvement in recent years because of better enforcement and administrative changes (i.e., introduction of simpler forms and permitting taxpayers to make payment at local bank branches).

Privatization: The Colombian government initiated an ambitious privatization plan beginning in 1991. Since that time the nation's ports, its railroad system, cellular telephone service and domestic long-distance service, five banks, eight chemical firms, three shipbuilding companies, six agroindustry enterprises, a fishing company, and a retail gasoline chain, among others, have been sold to private owners. In early 1994 a court decision made it mandatory that all shares of firms being privatized thereafter must be offered first to the employees of those firms and to such institutions as pension funds, cooperatives, and unemployment funds.

Regulatory Policy: Performance requirements exist in the automotive assembly sector in the form of local content requirements, as outlined in Decree 2642 of December 23, 1993. This decree requires the following local content: passenger vehicles carrying up to 16 persons and cargo vehicles up to 10,000 pounds, 30 percent; all other vehicles, 15 percent.

Government Procurement: Government procurement is subject to the norms established by Law 80 of October 1993. Certain articles contained in the legislation have been problematic to potential foreign investors, including some U.S. companies. Article 20 of Law 80 requires that foreign firms without an active local headquarters document that Colombian companies enjoy reciprocity in similar bids under the foreign firms' countries' procurement legislation. The law suggests that reciprocity be confirmed through bilateral or multilateral treaties or accords, or that it be certified by an "authorized" government entity. The American Embassy has been in contact with the Colombian government to attempt to find a mutually satisfactory resolution to these issues. However, no resolution had been reached as of late December 1994.

4. Debt Management

The Colombian Government continues to pursue ambitious structural economic reforms to stimulate real growth, strengthen its external sector, and enhance the country's access to new sources of credit. The debt management strategy is aimed at accessing new sources of credit in the external and domestic capital markets and on improving the debt profile of the country generally. The government used the proceeds of external bond sales in 1992, 1993 and the first nine months of 1994 to prepay approximately $1.8 billion of debt. At the end of 1993 Colombia's long term and medium term public and private debt was $17 billion, equivalent to 34 percent of GDP.

The Samper administration has announced that it will continue the orthodox management of Colombia's foreign debt pursued by the previous government. The administration's main debt-related objectives include obtaining a better rating for Colombian securities and increasing exposure with multilateral banks. The latter objective is being sought to provide priority financing for social programs and infrastructure improvements that are key elements of Samper's development program.

The government also intends to continue to reduce the burden of external debt service by keeping the growth of indebtedness below GDP growth. The government will also continue to broaden its access to funds in money markets in Europe, Japan, and the United States. In September 1994 the Colombian government placed $175 million in five-year "Yankee Bonds" in the United States market (at 1.6 points over Libor). That made $425 million placed in the United States during the first nine months of 1994. Colombian financial authorities will continue to seek funds under the most favorable terms in the world's largest markets.

5. Significant Barriers to U.S. Exports

Import Licenses: Colombia's prior import licensing requirement was formerly the country's most onerous import restriction. In 1991 the government abolished nearly all prior import requirements. Some 98 percent of tariff categories can now be imported freely, requiring only prior registration with the Colombian Trade Institute (Incomex). The remaining two percent of product categories still subject to prior import licensing include chemicals which could be used to manufacture cocaine, arms, and munitions. Imports by government entities, donations, and nonreimbursable imports also require prior licenses. The impact of import licensing requirements on U.S. exports is minimal.

Banking and Securities: Law 9 and Resolution 49 of 1991 opened up Colombia's financial sector to foreign investment. This legislation permits foreign investors to own up to 100 percent of financial institutions. There were two wholly-owned U.S. banking subsidiaries operating in Colombia in October 1994. A third is expected to commence operations before the end of 1994. U.S. companies in the Colombian banking and security sectors receive full national treatment.

Legal: The provision of legal services is limited to those licensed under Colombian law. Foreign law firms are not permitted a commercial presence in Colombia.

Insurance: A commercial presence (i.e., a registered place of business, a branch or an agent) is required in order to sell policies other than those for international travel or reinsurance. Colombia permits 100 percent foreign ownership of subsidiaries, but the establishment of branch offices of foreign insurance companies is not allowed.

Accounting and Auditing: Some restrictions exist because the firms which control 80 percent of the market are subsidiaries of multinationals. Providers of these services must be licensed in Colombia. However, services offered by tax and administrative consulting firms or individuals are not restricted.

Mining and Hydrocarbons: Petroleum and mining companies have expressed concern about restrictions on the use of local versus expatriate personnel, especially during the start up phase of a project. Colombian law requires that, unless an exemption is granted, at least 80 percent of employees be Colombian nationals.

Information Processing: Commercial presence is required to provide this service.

Advertising: At least 50 percent of programmed advertising must have local content. However, this applies only to public broadcast network programming.

Audiovisual Services: Public network programming limits foreign air time to 40 percent of the total.

Standards, Labeling, and Marking Requirements: The Colombian Foreign Trade Institute (INCOMEX) does not require specific technical standards for any products. However, specifications established by the Colombian Institute of Technical Standards (ICONTEC) apply to Colombian government imports made pursuant to international bids. The Colombian Import Code states a preference, but not a requirement, that imports be described in metric system terms.

Specific marks or labels are required only for pharmaceutical and food products. Labels on food products must indicate the specific name of the product, ingredients in order of content, the name and address of the manufacturer, and the total contents. No label or illustration may be inaccurate or misleading in any way. Pharmaceutical products must bear a label, in Spanish, stating "for sale under medical, dental or veterinary prescription," the generic and brand names of the product, the net weight or volume of the package, the weight or quantity of active ingredients, the product's license number, and the lot control number. Products with limited shelf life must indicate the product's expiration date.

Investment Barriers: Foreign direct investment policies in Colombia are guided by two principles: (1) equality, in the sense that foreign and national investors receive the same legal and administrative treatment; and (2) openness, meaning that few restrictions will be imposed on the value of foreign direct investment or its destination.

Law 9 of 1991, Resolutions 51, 52, and 53 of the Council of Economic and Social Policy (CONPES) and Resolution 21 of the Board of Directors of the Central Bank are the principal regulations which govern foreign direct investment. These resolutions grant national treatment for foreign direct investors and permit 100 percent foreign ownership in virtually all sectors of the Colombian economy. The few exceptions include ownership of real estate, activities related to the national security, and the disposal of hazardous waste.

Investment Screening: Investment screening has been largely eliminated, and those procedures still in place are generally routine and nondiscriminatory. Prior approval by the National Planning Department for foreign direct investment is required only if the investor is providing a public service (energy, water, communications, etc.), requesting coverage by international insurance or risk protection (i.e., OPIC) or investing more than $100 million in activities related to mining, smelting, refining, transportation, or distribution. The Ministry of Communications must approve foreign direct investment in that sector and the Ministry of Mines and Energy must approve all investment dealing with hydrocarbons. All foreign direct investment must be registered with the Central Bank's foreign exchange office within three months of start up in order to obtain permission to repatriate earnings. Finally, all foreign direct investment must obtain an operating license from the Superintendent of Companies and must be registered with the local Chamber of Commerce.

Customs Valuation: Establishing the value of imported merchandise, previously performed only by customs officials, is now done in many cases directly by the importer. The importer declares the value of the import and pays the corresponding tariff and other taxes at a commercial bank. Customs clearance, which frequently took months under the former system, can now be completed in a few hours.

Customs officers inspect merchandise on a random basis to verify that description and classification conform to the importer's declaration. A program is also being implemented for major customs brokers which provides them with a computer terminal linked to the computer network operated by the Bureau of Customs. Brokers with these terminals can complete most clearance procedures in their offices before picking up the merchandise at the port of entry.

6. *Export Subsidies Policies*

The Colombian Government has sharply reduced export subsidies. At present there are three types of export incentives: (1) indirect tax rebate certificates of 2.5 percent, 4 percent and 5 percent, (2) import duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported, and (3) export credits provided by the Colombian Bank of Foreign Trade. The overall effect of these programs has diminished considerably following Colombia's accession to the GATT Subsidies Code.

7. *Protection of U.S. Intellectual Property*

Colombia continues to improve protection of intellectual property rights through Andean Pact Decisions. Colombia remained on the Special 301 Watch List in 1994 due to continuing concerns over deficiencies in the patent regime and copyright enforcement efforts. Enforcement concerns arise not only at the police level, but also in the juridical system. Several private attorneys have commented on the lack of respect for preservation of evidence and frequent instances of perjury. Colombia is a member of the Convention establishing the World Intellectual Property Organization.

Patents: Andean Pact Decision 313 of 1991 provides patent protection for most products, including pharmaceuticals, biotechnology, and plant varieties. (Only pharmaceuticals on the World Health Organization list of "essential medicines" are ex-

cluded.) In 1993 the Andean pact adopted Decision 344, which represented a significant improvement over previous standards used for the protection of industrial property. For example, it provided for a 20-year patent protection term beginning with the filing date. However, the decision still falls short of U.S. goals in several respects, and is inconsistent with several provisions of the recently concluded agreement on Trade Related Aspects of Intellectual Property (TRIPs) in the Uruguay Round and the Paris Convention for the Protection of Industrial Property. For example, the compulsory licensing authority is inconsistent with TRIPs and no pipeline protection exists. Colombia also adopted Andean Pact Decision 345, which provides protection to certain plant varieties.

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. In April 1994, the UPOV determined that Colombia met the requirements for admission to the UPOV Convention, and authorized it to deposit accession documents.

Copyrights: In 1994, Colombia adopted Andean Pact Decision 351, which harmonizes, integrates and modernizes the laws of the five Andean countries. It also expressly protects software. In general, however, Decision 351 does not significantly alter copyright protection in Colombia.

Colombia's copyright law is based on Law 23 of 1982 and Law 44 of 1993, which increase 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. Computer software was protected under Law 44. Colombian copyright law is unclear as to whether it must honor foreign satellite signals.

Although Colombia has a modern copyright law, weak enforcement remains a serious problem. Video cassette and satellite signal piracy continue to be widespread. Amendments to the copyright law made in 1993 have significantly increased penalties for infringement. The police administrative agencies now can seize pirated material and close an establishment, and either suspend or cancel the operating license of any establishment open to the public where copyright infringement has occurred. Nevertheless, enforcement efforts have been sporadic.

Colombia belongs to the Berne (1987) and Universal (1976) Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights (1976) and the Geneva convention for Phonograms (1994). It is not a member of the Brussels Convention on Satellite Signals.

Trademarks: Colombia's trademark protection requires registration and use of a trademark in Colombia. Trademark registrations have a ten-year duration and may be renewed for successive ten-year periods. Priority rights are granted to the first application for trademark in another Andean Pact country or in any country which grants reciprocal rights. Trademark owners do not have a cause of action against importation of products from other Andean Pact countries that bear their trademarks without authorization, though certain labeling requirements concerning country-of-origin apply. Colombia is a member of the Interamerican Convention for Trademark and Commercial Protection. Enforcement of trademark legislation in Colombia is weak.

Trade Secrets: Andean Pact Decision 344 protects industrial secrets. Protected property includes that which is secret (not generally known or easily accessible to those who usually handle such information) or has an effective commercial value or a potential commercial value as a secret, when the person possessing the secret has taken reasonable steps to ensure secrecy.

Semiconductors: Semiconductor design layouts are not protected under Colombian law. However, the Colombian Copyright Office has expressed its willingness to discuss the issue.

8. Worker Rights

a. *The Right of Association.*—The right of workers to organize unions, engage in collective bargaining and strike is recognized by the Constitution and the law. The Colombian labor code was completely revised in December 1990 by Law 50, which authorizes automatic legal recognition of unions which have obtained internally 25 signatures from a work place. It also strengthens penalties for interfering with workers' freedom of association. The new Labor Law also authorizes the independence of labor organizations in determining internal rules and electing officers. In addition, the law forbids the dissolution of trade unions by administrative decree. Colombian workers are organized into 2,265 unions, 101 federations and three confederations. Unions may establish international affiliations without governmental restrictions. The Constitution extends the right to strike to nonessential public em-

ployees, but the definition of "essential" has yet to be determined by law. Before carrying out a legal strike, unions must negotiate directly with management and, in the absence of an agreement, engage in conciliation procedures. By law, public employees must go to binding arbitration if conciliation talks fail. In practice, public service unions decide by membership vote whether or not to seek arbitration.

b. *The Right to Organize and Bargain Collectively.*—Colombian unions have been moderately successful in organizing larger firms and public services, but their members comprise less than eight percent of Colombia's economically active population. Weak union organizations have limited workers' bargaining power in the private sector. Antiunion discrimination or the obstruction of union association is illegal and is enforced by administrative labor inspections. The use of strikebreakers is prohibited by the labor code. Colombian labor law is applied in the country's free trade zones (FTZs). There is no restriction against union organization or collective bargaining agreements in the FTZs.

c. *Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution, which specifically forbids slavery or any treatment of human beings in servitude. This prohibition is respected in practice.

d. *Minimum Employment Age.*—The Constitution prohibits the employment of youngsters in most jobs under the age of 14. The labor code prohibits those under age 18 from receiving government work permits. While this provision is generally respected by larger private companies, the extensive informal economy as well as specific areas such as cut flowers, coal mining, and leather tanning are effectively outside governmental control.

e. *Acceptable Conditions of Work.*—The Colombian Government annually sets a national minimum wage which serves as an important benchmark for wage negotiations. However, an estimated one-quarter of the labor force, mainly in the informal sector, earns less than the minimum wage. The labor code also establishes a standard work day of eight hours and a forty-eight hour work week. Enforcement of these laws is the responsibility of the Ministry of Labor and the court system.

f. *Rights in Sectors with U.S. Investment.*—All foreign investors are subject to Colombian laws protecting worker rights. U.S. investment is found principally in the petroleum, coal mining, chemicals, and manufacturing industries. Worker rights conditions in those sectors in practice are superior to those prevailing elsewhere in the economy due to the large size and high degree of organization of the enterprises. Examples include shorter than average working hours, payment of the highest wages and salaries in Colombia and maintenance of 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		758
Total Manufacturing		769
Food & Kindred Products	220	
Chemicals and Allied Products	284	
Metals, Primary & Fabricated	34	
Machinery, except Electrical	0	
Electric & Electronic Equipment	26	
Transportation Equipment	1	
Other Manufacturing	204	
Wholesale Trade		117
Banking		(1)
Finance/Insurance/Real Estate		335
Services		13
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,542

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (in current USD)	6,737.3	7,563.1	8,325.1
Growth Rate (pct.) (1966 colones)	7.7	6.1	4.7
By Sector:			
Agriculture	3.9	2.2	0.0
Industry	10.3	6.5	5.5
Electricity/Water	6	7	6
Construction	2.6	4.7	7.5
Commerce	12.5	8.2	4.0
Transportation/Communications	14.0	11.3	8.7
Financial/Insurance	10.8	12.4	10.7
General Government	1.0	2.0	2.5
Other Personal Services	4.2	4.5	5.5
Real GDP Per Capita			
1966 Colones	4,302	4,464	4,590
Current U.S. Dollars	2,292	2,317	2,543
Labor Force (000s)	1,087	1,109	1,131
Unemployment (pct.)	4.1	4.1	4.1
Money and Prices:			
Money Supply (M1, daily avg.) (millions current col.)	90,390	107,022	126,714
Interest Rate (lending pct.)	28	37	38
Interest Rate (deposit pct.)	20	25	27
Gross Domestic Investment (pct. of GDP)	23.4	25.9	26.0
Consumer Price Index (pct. change Dec to Dec)	17	9	19
Colon to USD Rate (avg. balance of payments)	134.3	142.4	155.0
Colon to USD Exchange Rate (December, parallel market)	138	152	168
Balance of Payments and Trade:			
Total Exports (FOB)	1,814.3	2,044.6	2,300.0
Exports to U.S. (FOB)	789.8	850.0	915.0
Total Imports (CIF)	2,455.8	2,900.7	3,400.0
Imports from U.S. (CIF)	1,148.5	1,300.0	1,470.0
Assistance from U.S.	[1] 17.4	20.5	3.317
Assistance from Other Countries	N/A	N/A	.N/A
Foreign Public Debt	3,263.8	3,158.4	3,192.8
Annual Debt Service Paid	496.6	481.6	181.5
Gold Reserves	9	9	13
Net International Reserves	1,096.0	1,076.7	900.0
IMF Methodology	354.0	457.5	277.5
Current Account Balance	−357	−470	−600

[1] Included ESF obligated but never disbursed.
Source: Central Bank of Costa Rica, for table and text.

1. General Policy Framework

The Government of Costa Rica continues trade and economic policies in favor of 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, disagreements with major trade partners within the GATT framework, and domestic political pressures resulting from uneven economic growth. Many reforms are lacking permanent legal backing or are still too new to gauge their efficacy, and some recent reforms have become political issues.

The reforms have contributed to an improving economy. The economy of Costa Rica showed significant growth during 1993, but slightly less than in 1992. Gross Domestic Product (GDP) increased 6.1 percent in 1993 (7.7 percent growth in 1992). Financial intermediation continued to be the fastest growing activity in Costa Rica, growing 12.4 percent in 1993, followed by communications, transportation and storage which grew 11.3 percent in 1993, and electricity and water which grew 7.0 percent in 1993, largely the consequence of price increases in state-supplied services. Industry grew 6.5 percent, and agriculture 2.2 percent, in 1993. Commerce, restaurants and hotels grew 8.2 percent in 1993. The general price level, as measured by the Consumer Price Index (CPI), increased 9 percent in 1993, a significant improvement after an increase of 17 percent in 1992. However, the CPI had increased 10.5 percent by the end of August 1994, and is expected to be close to 20 percent by the end of 1994. 1993's lower price levels were the result of tight money controls by the Central Bank and continuing decreases in tariff rates. These reduced tariffs also caused record-breaking increases in imports of cheaper goods. While increased taxation and public sector revenue reduced disposable income in 1992 and 1993, the relative stability of the exchange rate, plus the gradual reduction of tariffs, contributed to a record 40 percent increase in imports from the United States in 1993.

The Central Government's fiscal deficit reached USD 145.7 million in 1993, vs. USD 129.8 in 1992 and USD 173.9 million in 1991. Despite the increase in nominal terms, the Central Government deficit in 1993 remained equivalent to 1.9 percent of GDP, the same share as in 1992, and much lower than the 3.1 percent of GDP share in 1991. According to Central Bank data, the consolidated Public Sector fiscal deficit totalled USD 66.5 million in 1993, equivalent to 0.9 percent of GDP, an improvement over 1992 when the deficit was 1.1 percent of GDP. While tax income increased 15.8 percent in 1993, government bond sales (USD 686.2 million in 1993) increased 92.2 percent, becoming a critical source of financing. Monetary measures taken by the Central Bank in the second half of 1993 and rising interest and exchange rates made the cost of borrowing higher for the GOCR. On the revenue side, decreased tariff revenues (caused by lower tariff rates) and reduced export tax revenues (due in large part to low world coffee prices) resulted in lower tax revenues.

In 1993 the Central Bank continued to use a range of tools to control the growth of the money supply, including open market operations, restriction of public sector credit, and increases in the reserve requirements to commercial banks. Starting August 1, 1993, the Central Bank raised by 2 percent per month the reserve requirement for local currency demand deposits. By the end of 1993, the rate was 36 percent. The reserve requirement for time deposits in local currency (less than 180 days) increased from 14 percent at the end of 1992, to 17 percent at year-end 1993. Reserve requirements for foreign currency deposits were made equal to those applied to deposits in local currency. This measure consisted of a 13 percentage points increase in reserve requirements for dollar deposits of less than 30 days, and 5 percentage points for dollar deposits of more than 30 days but less than 180 days. The rate of interest paid by the Central Bank for its bonds was increased gradually by 18 percentage points from June to September 1993, in an effort to capture excess liquidity. On October 31, 1994, the Central Bank announced forthcoming increased reserve requirements for on-sight deposits from 36 percent to 43 percent, and from 17 percent to 30 percent for time deposit less than 6 months, effective at the end of November 1994. The reasons given for the increases were the need to capture excess liquidity, and for the Central Bank to cover some of the losses resulting from the closing of Banco Anglo. Also for reasons of excess liquidity, limits were put by the Central Bank on amounts that could be used by public institutions from donations previously made by USAID and deposited in the form of bonds with the Central Bank.

2. Exchange Rate Policy

The exchange rate policy in 1993 continued practices set in March 1992 by the Central Bank, aimed at primarily allowing the market to determine the exchange rate. The single exchange rate is set indirectly every morning by the Central Bank through its sale or purchase of foreign currency. Exporters are allowed to keep 60 percent of incoming dollars, but must sell the remaining 40 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 1 percent, and from that limited spread, 0.39 colon per dollar is a tax, and 0.68 colon is a fee paid to the Central Bank. Commercial banks must liquidate their foreign exchange positions daily.

This exchange policy resulted in an essentially unchanged exchange rate during 1993, as freely traded dollars from tourism and capital investment continued to flow into Costa Rica. The free and sufficient supply of foreign currency continued to be the most significant factor in increasing imports during 1993, particularly from the United States, aided by the relative devaluation of the U.S. dollar vs. other major currencies. Between June and August of 1993, high demand for dollars forced the Central Bank to depreciate the exchange rate. By the end of 1993, the exchange rate had depreciated 9 percent with respect to the end of 1992, resulting in an increase of 13.52 colones per dollar.

3. Structural Policies

While consumer protection laws in Costa Rica fix prices, regulate profit margins, and prohibit 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 antitrust rules and protect consumers against product misrepresentation and price fixing. This change in pricing laws is a requirement for the World Bank's Third Structural Adjustment Loan (SAL III), which was signed by the Government of Costa Rica in 1993, but which has not been ratified by the Legislative Assembly.

Other laws and regulations affecting U.S. exports to Costa Rica include the exclusive use of metric units, detailed labeling requirements, including the required use of Spanish, and 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

Costa Rica had a net foreign reserve decrease of USD 19.3 million during 1993. This was the result of a record USD 856.1 million deficit in the trade balance, resulting from an 18.1 percent increase in imports and a 12.7 percent increase in exports. The trade deficit was offset by net foreign investments of USD 275.0 million (USD 222.0 million in 1992) and services and transfers mostly due to tourism of USD 486.1 million in 1993 (USD 384.5 million in 1992). Costa Rica imported USD 1,300 million from the United States in 1993, a 13.2 percent increase from 1992. In 1993 Costa Rica exported USD 850 million to the United States, resulting in a trade surplus for the United States of USD 450 million. While the pending (since 1992) SAL III funds, for USD 350 million, are 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 approve loans and pass quickly the laws that are conditions for its disbursement. Consequently, Costa Rica will continue to experience pressure on its balance of payments, especially its trade account, and will need to attract more foreign investment and tourism, in order to avoid an eventual foreign exchange shortage.

Costa Rica paid USD 481.6 million in 1993 (USD 497 million in 1992) to service its official foreign debt, equivalent to 24 percent of exports. The debt is now USD 3,158.4 million (Dec. 31, 1993), equivalent to 42 percent of GDP. During 1993, the Government of Costa Rica managed to renegotiate USD 56.7 million of bilateral debts with the members of the Paris Club. Debt service payments decreased 3 percent in 1993, after an increase of 42.9 percent in 1992 when a concerted effort to reduce the country's debt was made in order to qualify for an eventual partial debt forgiveness by the United States. Servicing the very large internal debt continues to be a more serious immediate problem. 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 making capital improvements and for importing U.S. goods and services. 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. That the requirements can be met is evidenced by U.S. exports of wheat, which is not produced in Costa Rica, and is almost exclusively imported from the U.S. However, it is expected that on November 24, 1994, in compliance with GATT requirements, import permits will be replaced by tariffs. 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.

The Central Bank no longer licenses imports. 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. (Note: Electricity can be produced, in plants up to 20 KVA capacity, by private entities for sale to the state electricity grid, and legislation is under discussion to increase the percentage of foreign ownership allowed). However, recognizing the impossibility of public financing of large scale infrastructure projects, the legislature recently passed a law, which, once its implementing regulations are approved, would allow private construction and operation of public projects on a concession basis. Such facilities would revert to the state after an agreed upon period.

Many service industries are so rigorously controlled that foreign participation is practically impossible. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers and other professionals must be members of local guilds which stipulate residency, and examination and apprenticeship requirements that can only be met by long-time residents of Costa Rica. Investment in such private sector activities as customs brokerage firms is limited to Costa Rican citizens. In October 1994, the law limiting ownership of newspapers and radio and TV stations to Costa Rican citizens was repealed by the Constitutional Court. The law, which had been enacted in 1974 to prevent fugitive American financier Robert Vesco from owning a newspaper, was deemed discriminatory and therefore unconstitutional by the Constitutional Court of Costa Rica.

While the Government encourages the development of nontraditional 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 requirement exists 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 Contraloria (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 of Costa Rica, with USAID and U.S. Customs Service assistance, is implementing a profound reform of the system to automate and streamline to lessen the possibility of corruption and improve efficiency. This project is expected to be completed by December 1995. In addition, the Government of Costa Rica, again with USAID financial assistance, is setting up a one-stop window to speed up the pre-import permit process.

The government's expropriation policy is a disincentive to U.S. investment in Costa Rica. The government has expropriated large amounts of land for national parks, biologic and indigenous reserves, and squatters, and in a number of cases has yet to provide adequate compensation. Some unpaid U.S. expropriation claims date back over 25 years. While it is theoretically possible to obtain compensation through the court system, the time, cost and frustration of litigating against the government greatly diminish the value of such efforts. The government has made some efforts

to resolve expropriation cases. However, several U.S. citizens with long-standing claims have not yet received prompt, adequate or effective compensation. The U.S. government, through extraordinary means, has been able to encourage progress in some individual cases. In theory, claimants also have had recourse to international arbitration through the International Center for the Settlement of Investment Disputes since early 1993, although the Government of Costa Rica has thus far not submitted any case to ICSID. Local arbitration has been employed since 1991. Landowners in Costa Rica also 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 non-existent.

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 subsidies proved 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 not the GATT subsidies code. There are no discriminatory import policies. However 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.

Costa Rica did not sign the services agreement or the subsidies code under GATT. Costa Rica has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

Export companies wishing to locate in duty free production zones can benefit from exemption from import duties on raw materials and products, from all export, sales and consumer taxes, from taxes on remittance abroad, and from taxes on profits for a period of six years from the beginning of the 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 Rights 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. However, prospects for passage of such legislation in 1994 are problematic. The Uruguay Round TRIPS agreement should improve the Costa Rican IPR regime.

Copyrights: Costa Rica is a signatory to the following copyright conventions: Title 17 USC (October 19, 1899 and April 9, 1910); 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); Berne Convention for the Protection of Literary and Artistic Works (Paris Act 1971); Convention for the Protection of Producers of Phonograms (Geneva 1971); and Central American Convention (1982).

Costa Rica's copyright laws are generally adequate. The major problem for copyright holders is enforcement. On May 10, 1994, the copyright law (No. 6683 of 1 October 1982), was modified to extend protection to all forms of intellectual creations, including music scores, paintings, software programs, books, etc. The modifications also increase protection by directing the police to prevent non-authorized presentations of protected works. On May 24, 1994, the Government of Costa Rica issued regulations to Law No. 6683 that provide better protection and mandate police participation. The cable television industry now operates almost entirely under quitclaim agreements with foreign producers. However, a number of hotels are pirating transmission signals. Pirate videocassettes are widely available. According to industry sources and their legal representatives, no authorized distributor of videocassettes is currently operating in Costa Rica. The new copyright law has been challenged before the Constitutional Court by video operators. The Court has not yet decided whether it will hear the challenge.

Patents: Costa Rica is a signatory to the following patent conventions: Convention of Paris (1883); and Rio de Janeiro Convention on Patents, Industrial Design, Trademarks and Literary and Artistic Property (1906).

Costa Rican patent laws are deficient in several key areas. The patent protection term is far too short. Patents are granted for 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, agrochemicals and all beverage and food products.

No patent protection is available for plant or animal varieties, any biological or microbiological process or products, although the government is working on a legislative proposal that would protect such products. Costa Rica also has broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally. The limited patent protection available cannot be enforced until local production has begun. Costa Rican law also provides for compulsory dependent patent licensing and for expropriation of patents.

Trademarks: Costa Rica is a signatory to the following trademark conventions: Paris Convention (1883); Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906); and Central American Treaty on Industrial Property (1970).

Trademarks, service marks, trade names and slogans can be registered in Costa Rica. 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 can be lengthy 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 penalities for divulging trade secrets. The burden of enforcement is on the affected party.

8. *Worker Rights*

a. *The Right of Association.*—Workers are nominally free to join unions of their choosing without prior authorization, although barriers exist in practice. Unions are independent of government control and are generally free to form federations and confederations, and to affiliate internationally. Various trade union organizations contend that trade unionism's right of association has been hurt by Costa Rica's "solidarismo" (solidarity) movement. This movement espouses cooperation between employers and workers, offering such services as credit unions and savings plans in return for their renunciation of the right to strike and bargain collectively. However, in practice, solidarity associations have been accused of acting as collective bargaining agents. In 1993, the Government of Costa Rica approved a package of reforms that, in part, addressed the International Labor Organization's (ILO) concerns about the effect of solidarity organizations on workers' right to association. Prominent among these reforms was a provision explicitly prohibiting solidarity associations from participating in collective bargaining or direct agreements affecting labor conditions. In June 1994, the ILO's Committee of Experts ruled that, with the 1993 changes to the Labor Code and the promise of further reforms made by the Government of Costa Rica, progress has been made in assuring worker rights.

Costa Rican law restricts the right of public sector workers to strike, but two articles of the Penal Code that mandated tough punishment for striking government workers were repealed in 1993. There are no restrictions on the rights of private workers to strike, but the Labor Code contains clauses that employers have used to fire employees who try to organize or strike. Very few private sector workers are union members.

b. *The Right to Organize and Bargain Collectively.*—The right to organize is protected by the Constitution. Specific provisions of the 1993 Labor Code reforms provide protection from dismissal for union organizers and members during the period of union formation. Previously, employers used a clause in the Labor Code, permitting employees to be discharged "at the will of the employer" provided the employee received severance benefits. The payment of severance benefits to dismissed workers has often been circumvented in practice. Public sector workers cannot engage in collective bargaining because the Public Administration Act of 1978 makes labor laws inapplicable in relations between the Government and its employees. Collective bargaining is allowed in the private sector but, due to the dearth of unions, is not a widespread practice.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, and there are no known instances of either.

d. *Minimum Age of Employment of Children.*—The Constitution provides special employment protection for women and minors and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. A child welfare agency, in cooperation with the Labor Ministry, is responsible for enforcement. Enforcement in the formal sector is reasonably effective. Nonetheless, 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 provides the right to a minimum wage. A National Wage Board sets minimum wage and salary levels for all sectors. The monthly minimum wage ranges from USD 115 for domestic servants to USD 557 for certain professionals. Public sector negotiations normally follow the settlement of private sector negotiations. In addition, the Constitution sets the workday hours, remuneration for overtime, days of rest, and annual vacation rights. Maximum work hours are eight during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Ten-hour days are permitted for work not considered unhealthful or dangerous, but weekly totals may not exceed 48 hours. Nonagricultural workers receive an overtime premium of 50 percent of regular wages for work in excess of the daily work shift. Agricultural workers are not paid overtime, however, if they work beyond their normal hours voluntarily. A 1967 law governs health and safety at the workplace, but there are too few labor inspectors, especially outside of the San Jose metropolitan area, to ensure that minimum conditions of safety and sanitation are maintained.

f. *Rights in Sectors with U.S. Investment.*—Generally, in industries with significant U.S. investment (primarily food and related products and other manufacturing), respect for worker rights is good. This holds for those plants and operations under U.S. management and capital and does not necessarily hold for the industry as a whole. Outside of these U.S. companies, working conditions and respect for worker rights vary enormously, often to the detriment of workers seeking to organize trade unions.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2
Total Manufacturing		339
Food & Kindred Products	134	
Chemicals and Allied Products	97	
Metals, Primary & Fabricated	21	
Machinery, except Electrical	0	
Electric & Electronic Equipment	35	
Transportation Equipment	0	
Other Manufacturing	53	
Wholesale Trade		67
Banking		0
Finance/Insurance/Real Estate		0
Services	6	
Other Industries		−30
TOTAL ALL INDUSTRIES		385

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

DOMINICAN REPUBLIC

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1970 prices)	4,104.9	4,228.7	4,333.75

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Real GDP Growth (pct.)	7.8	3.0	2.5
GDP (current prices)	7,828	8,689	9,172
By Sector:			
Agriculture	1,174	1,304	1,376
Energy/Water	157	174	183
Manufacturing	1,252	1,390	1,467
Construction	548	608	642
New Housing Investment	548	608	642
Financial Services	470	521	550
Other Services	783	869	917
Government/Health/Education	783	869	917
Others	2,113	2,346	2,476
Net Exports of Goods & Services	−824.0	−749.5	N/A
Real Per Capita GDP (1985 prices in DR pesos)[2]	2,202	2,209	2,211
Labor Force (000s)[3]	3,240	3,370	N/A
Unemployment Rate (pct.)[4]	30	30	30
Money and Prices (annual percentage growth):			
Money Supply (M2)	32	28	8
Base Interest Rate[5]	30	29	27
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	7	8	12
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index[6]	779	800	896
Exchange Rate (DR peso/U.S dollar)			
Official	12.75	12.75	12.87
Parallel	12.74	12.60	14.00
Balance of Payments and Trade:			
National Exports (FOB)[7]	561.9	530.4	530.9
Trade Zone Exports (value added)	287.4	368.5	N/A
Exports to U.S.[8]	2,095.0	2,349.5	2,584.5
National Imports (CIF)[7]	2,178.1	2,118.4	2,224.3
Imports from U.S.[8]	2,098.1	2,671.5	2,938.7
Aid from U.S.[9]	22.5	24.6	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	4,582.3	4,685.4	3,900.0
Debt Service Payments (paid)	480.9	N/A	N/A
Gold and FOREX Reserves[10]	580.8	714.2	250.0
Trade Balance (National)[7]	−1,616.2	−1,588.0	−1,693.4
Trade Balance with U.S.[8]	−3.1	−322.0	−354.2

N/A—Not available.
[1] U.S. Embassy projections for 1994 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 1994 figure is as of July 1994. Short term (90 day) credit costs (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] Embassy estimate for December 1994.
Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.

1. General Policy Framework

During 1994, the Dominican Republic began to show signs of macroeconomic instability. While inflation had stayed in the single digit range during 1991–1993, by the end of 1994 the consumer price index is expected to register a jump of some

12 percent (over December 1993). Similarly, exchange rate stability began to deteriorate; during early October 1994 the buy rate for U.S. Dollars in Santo Domingo's informal foreign exchange market reached 14.70 pesos per dollar–a 15 percent decline from the peso's October 1993 value. Because of the Dominican Republic's very high propensity to import, changes in the exchange rate inevitably have a significant impact on consumer prices.

The reasons for this deviation from macroeconomic stability are clear: national elections were held on May 16, 1994 and government spending increased during the period prior to the elections. Much of the increased spending was–in essence - financed via money creation. By July 1994, cash in the hands of the public (m0) had increased by 24 percent over its July 1993 level. This increase in the money supply caused a big increase in aggregate demand for goods and services, putting pressure on both the exchange rate and the consumer price index.

Significant reductions in the Dominican Central Bank's dollar reserves left the government with a greatly reduced capacity to intervene in the foreign exchange market: beginning the year with dollar reserves of some 736 million dollars by late August reserves were down to approximately 150 million dollars. The reserves were diminished as a result of Central Bank efforts to bolster the peso in the face of election-related nervousness. The Central Bank also used a significant portion of its reserves to settle the Dominican government's long-standing commercial debt problem (see below).

Starting in early September 1994, the Dominican government initiated efforts to recover macroeconomic stability. A seasoned finance professional was given the position of Central Bank Governor and steps were immediately announced to reign in the monetary expansion mentioned above. President Balaguer pledged his support for the Central Bank's stabilization program. As of late October 1994, it appears that the government was having some success in these efforts.

2. Exchange Rate Policy

In effect there are three different sets of exchange rates in the Dominican Republic: the official Central Bank rates, the rates used by the commercial banking system and the rates used by the semi-legal "informal" foreign exchange market. Some sectors of the Dominican economy are still required by law to buy and sell foreign exchange at the Central Bank, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial bank system. In practice the Central Bank works to prevent the commercial bank rates from deviating too widely from the official rates, but when dollars are in short supply the informal market exchange rate will begin to rise and dominicans seeking to buy or sell dollars will make increasing use of this market.

In its attempts to influence the exchange rate, the Central Bank buys or sells dollars and attempts to influence overall demand for dollars by manipulating the reserve requirements of the commercial banks. To a limited extent the Central Bank also eng short-term notes).

While the peso price of U.S. Dollars has increased, as of October 1994 there was no indication that business activity was being seriously affected by any shortage of foreign exchange. Businesses here do, however, worry that the government might respond with exchange rate controls should the value of the peso continue to decline.

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 reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 3 to 35 percent. It also replaced some quantitative import restrictions with tariffs and transformed all tariffs to ad valorem rates.

While it marked an improvement over the previous tariff regime, the 1990 decree still left the Dominican Republic with trade barriers significantly higher than 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.)

The Dominican government has also 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.

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." Unfortunately 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 health 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. A draft foreign investment law is currently in the hands of the Congress, but progress in this area has been very slow.

4. Debt Management Policies

The total external debt of the Dominican government is now approximately 3.9 billion dollars. A significant portion of the official debt was rescheduled under the terms of a Paris Club negotiation concluded in November, 1991. In August 1994 the Dominican government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury backed rescheduling.

The Dominican Republic's debt burden is fairly typical for a lower middle income country. Total external debt as a percentage of GNP is approximately 48 percent.

5. Significant Barriers to U.S. Exports

Trade Barriers: Tariffs on most products fall within a 5 to 35 percent range. In addition, the government of the Dominican Republic imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, automobiles and auto parts. Due to the way in which this selective consumption tax was assessed, U.S. made automobiles were prohibitively expensive in the Dominican market. In response to inquiries from the U.S. Embassy, the Dominican government corrected this situation and the number of U.S. made automobiles increased significantly.

The Dominican Republic continues to require a consular invoice and "legalization" of documents, which must be performed by a Dominican consulate in the United States. Moreover, importers are frequently queried to obtain licenses from the Dominican customs service.

There are food and drug testing and certification requirements, but these are not burdensome.

Customs Procedures: Many businesspersons have complained that bringing goods through Dominican customs is a slow and arduous process, but there are indications that this situation improved during 1994. Customs department interpretation of exonerated materials being brought into the country still provokes many complaints and businessmen here must spend considerable time and money to get items through customs.

Arbitrary customs clearance procedures sometimes cause problems for businessmen. 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. 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: As indicated above, legislation designed to improve the investment climate is being discussed, but as of October 1994, no significant changes in the investment climate had been put into effect.

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 (and the foreign investment law mentioned above) could bring changes to this local ownership requirement.

Foreign companies cannot obtain internal credit for a period greater than one year without prior approval from the Central Bank, as per Law 861, Article 28 of July, 1978.

Sectors reserved by other provisions of Law 861 for Domestic Investment are: Public utilities, communications and media, national defense production, forest exploitation, and domestic air, surface and water transport. (Some foreign businesses operate in these sectors because they have been "grandfathered in.") Foreign investors can participate in joint ventures (defined as having 51 to 70 percent Dominican capital and management control) in fishing, insurance, farming, animal husbandry, and commercial and investment banking.

The electricity sector continues to be a weak link in the Dominican economy. Businesses operating in the DR cannot depend on the power utility to be a reliable source of electricity. While the government has been exploring the privatization of portions of the electric power system, little progress has been made.

Foreign employees may not exceed 20 percent of a firm's work force. This is not applicable when foreign employees only perform managerial or administrative functions.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards; several investors have outstanding disputes concerning expropriated property.

The Dominican Republic has not recognized the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Although private investment has been permitted in selected sites, the process of choosing and contracting such areas has not been clear or transparent.

Investors operating in the Dominican Republic's free trade zones experience far fewer problems than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move very quickly, without the kinds of bureaucratic difficulties mentioned above and the onerous restrictions on profit remittances do not apply to free trade zone businesses.

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 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.

7. Protection of U.S. Intellectual Property

In general, copyright laws are adequate, but enforcement is weak, resulting in widespread piracy. Although the Dominican Republic is a signatory to the Paris Convention and the Universal Copyright Convention, and in 1991 became a member of the World Intellectual Property Organization, the lack of a strong regulatory environment results in inadequate protection of intellectual property rights. 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. In response to this complaint, the Dominican government took effective action against cable television pirates and most of the television piracy was halted.

Patents (product and process): In a local pharmaceutical market of approximately 110 million dollars a year, Dominican manufacturers supply about 70 percent of the total. Of that, about seven per cent is 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. The U.S. Motion Picture Exporters' Association had estimated that losses to its members due to theft of satellite-carried programming were more than one million dollars 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. According to law workers cannot be dismissed because of union activities or membership. There has been a history of labor conflict in the free trade zones, with companies firing workers for engaging in union organizing activities. The 1992 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 work force. The 1990 firings of unionized workers by the Dominican Electric Corporation led to management/labor disputes which have yet to be fully resolved. The free trade zones have also been the scene of some management/labor disputes (see Section 8.F.).

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law. The Dominican government has been criticized for its treatment of Haitian workers employed by the State Sugar Council (CEA). Alleged abuses have included forced recruitment, compulsory labor, and restrictions on freedom of movement. Instances of forced labor and restrictions on movement occurred in only isolated instances on CEA plantations in 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 note 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 workweek 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 under funded.

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 has been a matter of controversy, but during 1994 some progress was made. 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 worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		237
Food & Kindred Products	4	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	5	
Transportation Equipment	0	
Other Manufacturing	210	
Wholesale Trade		5
Banking		(1)
Finance/Insurance/Real Estate		3
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,020

[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 current U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1985 factor cost)	10,694	10,908	11,279
Real GDP Growth (pct.)	3.6	2.0	3.4
GDP (at current prices)	12,233	14,311	16,590
By Sector:			
Agriculture/Fishing	1,554	1,733	2,010
Petroleum/Mining	1,537	1,534	1,780
Manufacturing	2,697	3,112	3,610
Electricity/Gas Water	14	40	40

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Construction	556	699	810
Transport/Communications	949	1,277	1,480
Commerce/Hotels	2,627	2,894	3,350
Finance/Business Services	568	718	830
Government/Other Services	1,132	1,531	1,780
Sales Tax/Other	599	775	900
Net Exports of Goods & Services	(110)	(490)	(890)
Real Per Capita GDP (1985 USD)	996	993	1,005
Labor Force (000s/estimated)	3,455	3,503	3,590
Open Urban Unemployment (pct.)	8.9	9.4	N/A
Money and Prices: (percentage)			
Money Supply (M2 growth)	55.5	54.0	67.0
Base Interest Rate [2]	47.4	33.8	34.0
Consumer Price Inflation	60.2	31.0	25.0
Exchange Rate (Sucres/USD) [3]	1,587	1,918	2,200
Balance of Payments:			
Merchandise Exports (FOB)	3,008	2,904	2,850
Exports to U.S.	1,408	1,327	1,311
Merchandise Imports (CIF)	2,430	2,562	2,820
Imports from U.S.	813	824	902
Aid from U.S. (fiscal year)	32.1	23.7	16.9
Aid from Other Countries	88	106	113
External Public Debt	12,122	12,806	[4] 13,248
Debt Service Payments [4]	1,532	1,299	–
Foreign Exchange Reserves	782	1,254	[5] 1,583
Merchandise Trade Balance	960	578	310

N/A—Not available.
[1] 1994 estimates are based on data available in October 1994. GDP sector figures are based on sector shares of 1993 GDP.
[2] Average annual interest rate for 90-day bank deposits.
[3] Average annual free market exchange rate.
[4] 1994 debt stock, excluding interest on interest, as of June 30. Debt service includes public and private scheduled payments, including arrears, but not refinanced payments.
[5] Reserves as of September 30, 1994.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production, along with exports of agricultural commodities (chiefly bananas) and seafood (particularly shrimp). Industry is largely oriented to servicing the domestic market, but is becoming more export-oriented. During the oil boom of the 1970's, the Ecuadorian government borrowed heavily from abroad, increased subsidies to consumers and producers, and expanded the state's role in economic production. In the 1980's, such policies became less financially sustainable, leading to chronic macroeconomic instability. The resulting fiscal deficits were financed by accumulation of arrears to suppliers and foreign banks, along with monetary emissions by the Central Bank. Nevertheless, a functioning democracy and partial reform measures kept Ecuador's economic problems within manageable limits. In 1992 the electorate turned away social democratic and populist presidential candidates to choose a conservative advocate of economic liberalization. President Sixto Duran Ballen took office in August 1992 promising to stabilize the economy, modernize the state, and expand the role of the free market. While the macroeconomic program has been successful, the fundamental structural reforms required to improve the investment climate and prospects for long-term growth has proven more difficult to achieve.

Two rounds of economic stabilization measures in 1992 and 1994, including large fuel and public utility price hikes, all but eliminated the public sector budget deficit, reduced chronic inflation, slowed the depreciation of the currency, and built up Ecuador's foreign currency reserves. The 1992 budget reform law should help unify the central government budget, curtail the earmarking of revenues for unrelated expenditures, and give the Ministry of Finance greater control over spending by public agencies. The elimination of the Central Bank's role in subsidizing credit earlier in 1992 has also helped curb the deficit. Since February 1994, the government has set

domestic gasoline prices according to world market factors, thereby stabilizing an important source of government revenue. Finally, the tax reform of December 1993 and the March 1994 customs law, if fully implemented, should increase the government's non-oil revenues.

After failing to close an agreement with the IMF in mid-1993, the government concluded a two-year stand-by arrangement in March 1994 and has applied strict fiscal discipline to date. Deferral of capital projects has helped keep the 1994 consolidated public sector deficit to below 0.5 percent of GDP. Government revenue from oil exports and domestic sales of fuel will account for about 7.5 percent of GDP in 1994, while sales and income taxes will only contribute 6.2 percent of GDP. Public sector expenditures (including the state enterprises, but excluding the military's capital budget funded by a direct allocation of oil revenues) will account for about 26 percent of GDP in 1994. Debt service is the largest area of government spending, followed by education and defense. For 1995, the government plans to increase real spending on debt service, road building, public health, and the military, and cut spending on housing, welfare, agriculture, and general administration.

As a result of the stabilization program and weaker demand for Ecuadorian exports, economic growth slowed to 2 percent in 1993, down from 3.6 percent in 1992. Greater oil and banana production volumes in 1994 may result in GDP growth of over 3 percent in 1994. The government hopes that reform measures will finally produce a general economic recovery and 4 percent growth in 1995. Gross domestic product for 1994 should reach about $16.6 billion, producing a GDP per capita of $1,479. In 1993, Ecuador ran a $578 million merchandise trade surplus and a current account deficit of $360 million due to a services deficit of $1,068 million. Ecuador's trade surplus will fall further to around $300 million in 1994, with oil and banana prices remaining below the levels of previous years.

After experiencing general price rises of 60 percent in 1992 and 31 percent in 1993, Ecuador's inflation rate is slowing to about 25 percent for 1994. The government hopes to reduce inflation to 15 percent in 1995 and single digits in 1996. Driven by capital inflows, the money supply (M2 or bank liquidity) increased by 54 percent in 1993 and as of the end of September 1994 was up 70 percent over the previous 12 months. M2 has risen to 21 percent of GDP. Since late 1992 the Central Bank has tried to smooth out fluctuations in liquidity through weekly bond auctions and interventions in the secondary market. The government has attempted to compensate for the inflationary effect of the foreign exchange influx by increasing its sucre deposits at the Central Bank. In July 1994, the Central Bank abandoned the use of reserve requirements as a monetary policy tool when it unified the requirement for checking and savings deposits, then lowered it to 10 percent. From late 1992 to early 1994, free market sucre interest rates swung sharply in response to alternating periods of declining inflationary expectations and renewed uncertainty over the direction of government economic policy. Declining liquidity produced a slower climb in rates from April to July 1994 to peak at 41 percent for 90-day CD's. During the second half of 1994, 90-day CD rates eased to about 35 percent. The spread between savings and lending rates has narrowed from an average of 11 points in 1993 to 8 points for 1994.

2. Exchange Rate Policy

In September 1992, the government devalued the currency by 35 percent, set an intervention rate of 2,000 sucres to the dollar and embarked on a controlled float. Since December 1992 exporters have no longer had to surrender their foreign exchange earnings to the Central Bank. The intervention rate was abandoned in September 1993. Foreign currency is readily available on the free market, trading at about 2,275 sucres to the dollar in October 1994, a 12 percent nominal depreciation since the beginning of the year. There are no restrictions on the movement of foreign currencies into or out of Ecuador. A partially-controlled exchange rate structure remains in effect for the public sector. The state oil company and other public entities currently receive about 11 percent less for dollars earned from exports than the free market rate for buying dollars. The spread, which the government plans to eliminate, serves to finance the Central Bank and force savings by the public sector enterprises.

A high interest rate differential between Ecuador and the United States has attracted net capital inflows of around $700 million since late 1992, slowing the nominal depreciation of the sucre. Relative exchange rate stability contributed to a real inflation-adjusted appreciation of the sucre of 16.7 percent in 1993, a pattern that has continued in 1994. The overvalued currency and earlier trade liberalization measures have made imports more competitive and served as a partial anchor against inflation, but Ecuadorian exporters are increasingly caught between rising sucre costs and stagnant sucre earnings. The Central Bank has intervened in the

exchange market on occasion to keep the currency from appreciating by selling sucres, leading to an increase in foreign reserves, but creating upward pressure on the money supply. By the end of September 1994, foreign exchange reserves had risen to $1.58 billion, enough to cover imports for about 6 months. During 1995, increased inflows of multilateral development resources should be offset by renewed debt service payments.

3. Structural Policies

The Duran Ballen administration has had only partial success with its structural reform program designed to promote investment and economic growth. In the administration's first year, progress was made on budget reform and promoting the development of capital markets. The government's staffing level, particularly for contractors, was significantly reduced. Many unnecessary and market-distorting regulations were eliminated. With a few exceptions for pharmaceuticals and some foodstuffs, all prices are now set by the free market. During the second year, the state development banks began selling their equity shares in commercial enterprises to the private sector, although there have been no sales of shares owned by the military. The government hopes to move forward during its final two years with the partial privatization of some of the major state enterprises, while continuing the effort to implement earlier government modernization legislation and combat corruption.

The version of the state modernization law finally passed by Congress in late 1993 allows private sector participation in "strategic sectors" of the economy, including petroleum, electricity, and telecommunications, but only on a concession basis. Legislation to promote private sector involvement in telephone service and electricity generation may be enacted in 1995. Meanwhile, the government is proceeding with the sale of Ecuatoriana, the bankrupt state airline. Since April 1994, new leaders at the National Modernization Council (CONAM) have given direction and purpose to the government's structural reform program. In addition to the plans for the major state enterprises, CONAM is developing concession programs for public works, the civil registry, airports, and ports and customs administration. Postal and railroad services will be left more to the private sector. Efforts will also be made to modernize higher education and the social security system's troubled pension and health systems. The Ministry of Education is introducing a modern curriculum in the public schools designed to emphasize reasoning over memorization.

The May 1993 capital markets law provided a mechanism for privatizing state enterprises by establishing the legal basis for turning the Quito and Guayaquil stock exchanges into true equity markets. During the first year of operations under the new law, monthly trading volume of equity shares grew from practically nothing to $53 million in July 1994. The markets should expand further in the wake of social security pension reform, privatizations of state firms, and greater private sector interest in the markets' capital-raising potential. Meanwhile, Congress enacted a new financial institutions law in May 1994 that substantially deregulates the financial sector, while providing greater safeguards against bank failures.

Investment liberalization measures in 1991 and 1993 provided 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. A bilateral investment treaty that provides free transfers and a binding arbitration dispute settlement procedure was signed with the United States in August 1993 and ratified by Ecuador's Congress in September 1994. The capital markets law equalized income tax rates on foreign and domestic companies at 25 percent. A value-added tax of 10 percent applies to sales of imports of goods and services in the formal sector. Utilizing the more investor-friendly procedures of the November 1993 hydrocarbons law, the goverment generated considerable foreign interest in the 1994 seventh petroleum exploration licensing round and a project to construct and manage a second oil pipeline across the Andes. In July 1994, Congress approved an agrarian development law that will improve the security of agricultural land tenure for both peasants and agrobusiness.

4. Debt Management Policies

At the end of the first half of 1994, Ecuador's external debt, including past-due interest, exceeded $13.3 billion. Over half of the debt, about $4.5 billion in principal and $2.8 billion in interest arrears, was owed to foreign commercial banks and secondary market investors in bank paper. Total debt service owed in 1993 amounted to 36 percent of goods and services exports and 9 percent of GDP. Ecuador stopped paying debt service to the commercial banks in 1987, resumed paying 30 percent

of interest due in June 1989, then halted partial interest payments in September 1992. Settlement of the debt issue has been a major priority for the Duran Ballen administration. Resolution of the debt problem should improve Ecuador's creditworthiness and attractiveness to investors.

In May 1994, Ecuador and its commercial creditors agreed on a comprehensive restructuring of its external commercial bank debt. Under the agreement, creditors can exchange existing instruments for new bonds carrying a 45 percent discount or for par bonds with fixed interest rates varying from 3 to 5 percent. Given the mix of instruments chosen by the creditors under the agreement signed in October 1994, Ecuador received a net reduction of 26 percent in principal owed, while 57 percent of the remaining debt stock of $3.32 billion will carry a fixed interest rate of no more than 5 percent. The government will have to spend about $540 million to purchase collateral for debt principal and interest. Multilateral bank financing, made possible by the 1994 agreement with the IMF, will help Ecuador meet the upfront costs of the debt settlement. Service on the commercial debt should average some $275 million over the next 6 years and rise thereafter unless the government takes steps to retire some of its debt stock.

In June 1994 Ecuador reached an agreement with the Paris Club to reschedule $304 million in official bilateral debt service on pre–1983 obligations that fell due in 1993 and 1994. Ecuador is currently negotiating a bilateral rescheduling agreement with the United States. The Ecuadorian government is also negotiating a major structural adjustment loan with the World Bank.

5. Significant Barriers to U.S. Exports

In the early 1990's, 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. As part of the Andean Pact integration effort, the Duran Ballen administration concluded bilateral free trade agreements with its Andean Pact partners Colombia, Bolivia, Peru, and Venezuela. Ecuador applied to join GATT in September 1992 and is currently engaged in negotiations with GATT contracting parties over the terms of its accession to both GATT and the WTO. As part of its accession, Ecuador will commit to ensure its trade regime is GATT-consistent.

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.

Customs procedures can be difficult, and have occasionally been used to discriminate against U.S. products. The government is implementing a new customs reform law to reduce corruption and improve efficiency in the customs service, thereby eliminating a major constraint on trade. Sanitary requirements for imported foods, as well as some other consumption goods have had the effect of blocking the entry of some imports from the United States. The government is phasing out its policy of setting minimum prices for assessing customs duties on textiles and some other imports. Import bans are in effect for used clothing, cars, and tires. Price bands have resulted in high effective tariffs for a variety of agricultural products.

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 distributorship 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.

6. Export Subsidies Policies

Ecuador does not have any export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador's protection of patent and trademark rights is based on Andean Pact Decisions 344 and 345, while copyrights are covered by Decision 351. The new decisions provide 20-year patent terms (except for some pharmaceuticals), protection for

plant varieties. Ecuador's implementing regulations provide pipeline protection for patents, and control of parallel imports.

In a major breakthrough, Ecuador and the U.S. signed a bilateral Intellectual Property Rights Agreement in October 1993 that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs, and trade secrets. While the government implemented some provisions by executive order and legislation, the Ecuadorian Congress has not yet ratified the agreement; nor has the government introduced legislation to harmonize local law with the agreement's requirements. Ecuador is committed to adopting legislation implementing the Trade-Related Intellectual Property (TRIPS) Agreement of the Uruguay Round, as part of its GATT/WTO accession.

Enforcement of intellectual property rights remains a problem for Ecuador. Copyright infringement occurs and there is some local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks is a problem since the government lacks the resources to monitor and control such registrations. Some local pharmaceutical companies produce or import patented drugs without licenses.

8. Worker Rights

a. *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. Less than 10 percent of the labor force, mostly skilled workers in parastatal or medium to large sized industries, is 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. Ecuador does not have a high level of labor unrest. Most strike activity involves public sector employees.

b. *Right to Organize and Bargain Collectively.*—Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The labor code provides for resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector. Despite reforms in 1991, 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 of Employment of Children.*—Persons less than 14 years old are prohibited by law from working except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parent or guardian to work. In practice, many rural children begin working as farm laborers at about 10 years of age, while poor urban children under age 14 often work for their families in the informal sector.

e. *Acceptable Conditions of Work.*—The labor code provides for a 40 hour work week, 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 Congress. Mandated bonuses bring total monthly compensation to about $123. The Ministry of Labor also sets specific minimum wages by job and industry so that the vast majority of organized workers in state industries and large private enterprises earn substantially more than the general minimum wage. The Duran Ballen administration has proposed a simplification of the complex wage and bonus system. The labor code also provides for general protection of workers' health and safety on the job. Occupational health and safety is not a major problem in the formal sector. There are no enforced safety rules in the agriculture sector and informal mining.

f. *Worker Rights in Sectors with U.S. Investment.*—The economic sectors with U.S. investment include petroleum, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large, multinational companies which abide by the generous Ecuadorian labor code. In 1994 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		355
Total Manufacturing		97
Food & Kindred Products	33	
Chemicals and Allied Products	-3	
Metals, Primary & Fabricated	18	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	31	
Wholesale Trade		38
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		511

[1] 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 U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (millions of 1962 colones) [2]	3,563.0	3,761.7	3,978.2
Real GDP Growth (pct.)	4.8	5.1	5.8
GDP (at current prices)	6,543.1	7,600.9	8,784.4
By Sector:			
Agriculture	606.9	651.8	797.2
Energy/Water	153.4	198.7	230.7
Manufacturing	1,236.3	1,447.8	1,669.8
Construction	186.0	237.5	279.8
Rents	367.7	400.9	450.9
Financial Services	172.7	213.5	247.7
Other Services	682.2	779.4	894.2
Public Administration	461.2	495.9	550.3
Net Exports of Goods & Services	1,028.5	-1,077.2	-1,228.9
Nominal Per Capita GDP	1,201.0	1,495.0	1,632.0
Urban Labor Force (000s) [3]	893	965	1,041
Unemployment Rate (pct.) [3]	7.9	7.8	7.5
Money and Prices:			
Money Supply (M2 annual pct. growth)	31.4	35.7	21.4
Base Interest Rate [4]	16–18	16–19	16–19
Personal Saving Rate (on deposits)	12–14	11–15	11–14
GDP Deflator (pct. change)	8.9	14.9	8.8
Consumer Price Index	19.9	12.0	10.0
Exchange Rate (colon/USD)	8.37	8.73	8.75
Balance of Payments and Trade:			
Total Exports (FOB)	597	731	823
Exports to U.S.	257.3	219.0	173.0
Total Imports (CIF)	1,698.5	1,912.0	2,142.0

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Imports from U.S.	650	844	910
Aid from U.S.[5]	270	161	215
Aid from Other Countries	20.0	44.3	30.0
External Debt	2,337.5	1,924.0	2,051.0
Debt Service Payments (paid)	346	290	365
Gold and Foreign Exch. Reserves	554.2	645.0	780.0
Trade Balance	−1,101.5	−1,181.0	−1,319.0
Trade Balance with U.S.	−392.7	−625.0	−737.0

[1] 1994 figures are July Central Bank estimates.
[2] GDP at market cost; 1962 base currently being revised by Central Bank to 1988; no dollar figures available.
[3] Ministry of Planning household survey.
[4] Loan rate.
[5] Excludes military aid.

1. General Policy Framework

The Salvadoran economy continues to reap the benefits of sound economic programs, a commitment to a free economy, and careful fiscal management. Real GDP growth in 1994 reached an estimated 5.8 percent, led by a strong performance in the service and construction sectors, while inflation was held to 10 percent. Exports, particularly to the reconstituted Central American Common market, expanded notably during the year. The new president, Armando Calderon Sol, who took office in June 1994, has stated clearly his intention to pursue the trade liberalization and economic reform programs begun by his predecessor. However, the post-war economic recovery is fragile, heavily dependent on a favorable balance of payments position maintained by large amounts of remittances from Salvadorans abroad.

El Salvador turned decisively toward market-oriented economics in the four years under President Alfredo Cristiani (1989–1994). The Cristiani government rejected the import-substitution model and pursued trade liberalization and export-led growth. From a structure with tariffs as high as 240 percent, the government established a system in which most duties fall in a range of 5–20 percent. Nontariff barriers and import licensing were almost totally abolished. The Central American Common Market has been reactivated, with most commerce duty-free. Government agricultural monopolies were dismantled, as were internal price controls on 240 consumer goods. Trade has grown 12 percent (higher than real economic growth) from 1993 to 1994; although the absolute value of merchandise exports is still less than half the value of imports.

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, currently valued at about 8.7 to the dollar, has traded in a narrow range for the past two years, maintained to a certain extent by modest interventions on the part of the Central Bank and remittances. The banking system has been reprivatized. Controls on interest rates have been removed, allowing rates to return to real positive levels. A generally disciplined monetary policy has reduced inflation from 12 percent in 1993 to an estimated 10 percent in 1994.

Fiscal policy has been the biggest challenge for the Salvadoran government. The peace accords signed between the government and the Faribundo Marti Liberation Movement (FMLN) in December 1991 committed the government to heavy expenditures for transition programs and social services. International aid has not been as generous as expected. The government has focussed on improving the collection of its current revenues, relying more on its own resources than on foreign aid. Government revenues, half of them generated by the new Value Added Tax (IVA), have increased substantially during 1993 and 1994. The share of domestic taxes in GDP is expected to grow from 9.4 percent in 1993, to 10.6 in 1994. Efforts now are underway to improve tax collection. Government planners estimate that the IVA is presently contributing only 60 percent of its potential revenue. Overall, enhanced revenues—including IVA and income tax and improved collection of import duties—and some expenditure reduction are expected to sharply reduce the need for domestic financing of the deficit.

The government completed implementation of an Integrated Accounting System in the public sector in June 1994. It has also taken steps to improve its financial

control over public enterprises and is pursuing privatization of key institutions—the National Telecommunications Enterprise (ANTEL), parts of the Hydroelectric Production Agency (CEL), and the Social Security Institute (ISSS). Other important fiscal reforms include the repeal of the wealth tax in April 1994, approval of a new Customs Law in May 1994, and elimination of all import duty exemptions in July 1994, including exemptions to public enterprises.

2. Exchange Rate Policy

A multiple exchange rate regime that had been 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. Large inflows of dollars in the form of family remittances from Salvadorans working in the U.S. offset a substantial trade deficit. The monthly average of remittances reported by the Central Bank is slightly less than $80 million, representing more than $900 million for 1994. In addition, the Central Bank intervenes periodically in the exchange market to moderate speculative pressures and smooth out rate fluctuations.

3. Structural Policies

U.S. exports to El Salvador have increased over 60 percent since 1991, accounting for some 40 percent of El Salvador's total imports. The key policy change driving this trend was the government's decision to radically lower tariff barriers. El Salvador's open trade policies are not likely to be reversed. Although the country has run up huge trade deficits in recent years, they have been more than offset by remittances, short-term capital inflows, official transfers and loans. In fact, El Salvador's net international reserves are estimated at $780 million as of December 1994, up 20 percent over 1993. Also contributing to the surge in imports is the robust rate of economic growth and a post-war construction boom. Over 73 percent of imports in 1994 were in the categories of capital and intermediate goods.

Prices, with the exception of bus fares and utility rates, are set by the market. The 10 percent value-added tax is applied equally to all goods and services, imported and domestic, with a few limited exceptions (dairy products, fresh fruits and vegetables, and medicines). It has not proven to be an impediment to import sales. In October 1994, the government suspended a price band mechanism, introduced in 1990 to regulate tariffs on basic grains, and imposed a fixed tariff of 20 percent ad valorem. However, Salvadoran officials have indicated that they plan to reinstitute price bands sometime in 1995, probably on a regional basis.

4. Debt Management Policies

El Salvador's external debt decreased sharply in 1993, chiefly as a result of an agreement under which the United States forgave about $461 million of official debt. As a result, total debt service decreased by 16 percent over 1992. In 1994, El Salvador received $265 million in external aid, from multilateral institutions, bilateral sources, and private sources. External debt crept up from $1.924 billion in 1993 to $2.142 billion in 1994 and debt service rose correspondingly to $365 million. However, 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 most recent 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 Interamerican Development Bank loan for poverty alleviation projects.

5. Significant Barriers to U.S. Exports

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 5 to 20 percent with higher duties only applied to automobiles, alcoholic beverages, textiles and some luxury items. As of January 1, 1995 the tariff on textiles will decrease from 35 to 25 percent.

Generally, 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 been removed. Foreign banks now face the same requirements as Salvadoran banks and can offer a full range of services.

El Salvador officially promotes foreign investment in most sectors of the economy. 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. One U.S. power company has already invested in a local generating station. It is possible that the government will choose to accelerate this trend.

El Salvador is a member of the GATT and expects to become a member of the World Trade Organization. The government is drafted legislation to implement the full range of its Uruguay Round commitments.

6. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It does offer 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 10-year exemption from income tax as well as duty-free import privileges.

In October 1994, the Salvadoran Central Bank announced that it would write off $5.7 million in credits granted to some 10,000 small businesses that sustained losses during the armed conflict. El Salvador is a not member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

El Salvador's new law protecting intellectual property rights took effect in October 1994. Implementing regulations have not yet been promulgated, but the law is being enforced. Local representatives of U.S. companies report a significant drop in violations, particularly in the areas of sound and video recordings. However the government has been hampered by resource limitations and a burgeoning crime rate that has forced it to give priority to crime-related issues. El Salvador remains on the Special 301 watch list pending U.S. government evaluation of the law's implementation.

The new law addresses several key areas of weakness. Patent terms are lengthened to 20 years (15 for pharmaceuticals), and the definition of patentability is broad. Compulsory licensing applies only in cases of national emergency. Computer software is also protected, as are trade secrets. Trademarks, however, are still regulated by the Central American Convention for the Protection of Industrial Property. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. The government is working on consensual amendments to the convention to eliminate this problem.

El Salvador is a signatory to the Geneva phonograms and Rome copyright conventions. The government has signed the Berne convention on the protection of artistic and literary works. The National Assembly ratified the Paris Convention on the protection of industrial property in January 1994.

8. Worker Rights

a. *The Right of Association.*—Approximately 150 unions, public employee associations, and peasant organizations represent over 300,000 Salvadorans, about 20 percent of the total work force. Private sector workers can form unions and strike, while public sector workers can form employee associations, but may not strike. (Despite the restriction, there have been many strikes in the public sector.) Major reforms to the labor code were passed in April 1994, streamlining the process required to form a union; extending union rights to agricultural, independent, and small-business workers; and extending the right to strike to union federations.

b. *The Right to Organize and Bargain Collectively.*—Only private sector unions and unions at autonomous public agencies have the right to collective bargaining, though in practice government workers do so 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. The labor code reforms attempt to address this problem.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor except in the case of calamity and other instances specified by law. This prohibition is followed in practice.

d. *Minimum Age of Employment in Children.*—The Constitution prohibits the employment of children under the age of 14. Exceptions may be made only where such employment is absolutely indispensable to the su tenance of the minor and his family, most often the case for children of peasant families, who traditionally work with their families during planting and harvesting seasons. Children also frequently work in small businesses as laborers or vendors, despite the legal requirement that they complete schooling through the ninth grade. Child labor is not found in the industrial sector.

e. *Acceptable Conditions of Work.*—In July the government raised the minimum wages for commercial, industrial, service, and agro-industrial employees by 13 percent. The new rate for industrial and service workers was 35 colones per day (about $4); agro-industrial employees must be paid 26 colones (about $3), including a food allowance, per day. Despite these increases, approximately 40 percent of the population lives below the poverty level. The law limits the workday to eight hours and the work week to 44 hours, 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.*—U.S. investment in El Salvador is distributed fairly evenly inside and outside the so-called "maquilas" or free zones. The labor laws apply equally to all sectors, including the free zones. However, in practice businesses in the free zones discourage union activity; those trying to form unions have been fired. The Ministry of Labor lacks the resources and support from the legal system to adequately monitor the activities of the companies in the free zones.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		44
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	0	
Electric & Electronic Equipment	−1	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		2
Banking		(1)
Finance/Insurance/Real Estate		4
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		104

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1985 prices)	7,264	8,262	9,089
Real GDP Growth (pct.)	4.8	3.9	4.0
GDP (at current prices)	7,741	11,260	12,527
By Sector: (pct.)			
Agriculture	25.3	24.9	24.8
Energy/Water	2.7	2.9	2.9

Key Economic Indicators—Continued

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

	1992	1993	1994
Manufacturing	14.6	14.5	14.5
Construction	2.3	2.2	2.2
Rents	4.9	4.8	4.8
Financial Services	4.3	4.5	4.5
Other Services	6.0	5.9	5.8
Government/Health/Education	7.1	7.5	7.5
Transportation	8.4	8.4	8.5
Commerce	24.1	24.1	24.1
Mining	0.3	0.3	0.4
Real Per Capita GDP (1985 base)	745	824	881
Labor Force (000s)	2,803	2,897	3,213
Unemployment Rate (pct.)[2]	6.1	5.5	4.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	2,234	2,451	2,584
M2 Annual Percentage Change	19.5	8.9	8.0
Base Interest Rate[3]			
Commercial Banks (deposits)	16.0	14.0	15.0
Commercial Banks (loans)	25.0	27.0	25.0
Consumer Price Index	13.7	11.6	12.0
Exchange Rate (quetzal/dollar)	5.70	5.66	5.80
Balance of Payments and Trade:[4]			
Total Exports (FOB)	1,284	1,356	1,383
Exports to U.S.	453	501	417
Total Imports (CIF)	2,328	2,381	2,566
Imports from U.S.	1,081	1,172	1,120
Aid From U.S.	70	55	54
External Public Debt	2,252	2,071	[5] 2,034
Debt Service Payments (paid)	720	556	N/A
Net Gold and FOREX Reserves	473	608	608
Total Trade Balance	−1,044	−1,025	−1,183
Merchandise Balance with U.S.	−628	−671	−703

N/A—Not available.
[1] 1994 figures are U.S. Embassy estimates.
[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.
[5] As of June 30, 1994.

1. General Policy Framework

With a GDP of roughly 12.5 billion dollars, Guatemala is the largest economy in Central America, as well as the biggest importer of U.S. products. The 1993 merchandise trade deficit of 671 million dollars with the U.S. was more than double the figure recorded two years earlier.

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, cardamom, and meat. After several years of depressed world prices, export receipts from these traditional products have rebounded significantly in the last several years. Coffee export earnings, for example, are running 60 percent higher in 1994 than in 1993. The other main productive activities are commerce and manufacturing, which contribute 24 percent and 15 percent, respectively, of total GDP. Nontraditional 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 ago. Tourism receipts accounted for $256 million in exchange earnings in 1993, but are running 10 percent below that level in 1994.

The 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, real GDP growth for 1993 was about 3.9 percent, down somewhat from the 4.8 growth of 1992.

Growth is expected to be about 4.0 percent in 1994. 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. Since then, 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 fell to an average of around 12 percent in subsequent years.

By drastically curtailing expenditures in 1991, the government successfully reduced the consolidated public sector deficit from 4.7 percent of GDP in 1990 to just 1.6 percent in 1991. With the 1992 fiscal reform, the overall deficit fell further to just 0.6 percent. However, due to declining tax collections in real terms, the combined public sector deficit rose to 2.7 percent of GDP in 1993 and could reach as high as 3.3 percent in 1994.

Late in 1993, Guatemala began a shadow program with the International Monetary Fund, which the government hopes to convert to a formal standby agreement in 1995. In accordance with that agreement, the government has eliminated subsidies for municipal wages and, in March of 1994, liberalized gasoline prices. The government also concluded a Financial Sector Modernization Loan agreement with the Inter-American Development Bank. Under this program, Guatemala is moving to liberalize and better supervise its financial system. The Government has yet to present legislation to implement the Uruguay Round to the Guatemalan Congress, although it has expressed its intent to do so.

2. Exchange Rate Policy

Guatemala maintains an open, relatively undistorted exchange regime. There are no legal constraints on the quantity of remittances or other capital flows. In early 1994, the government ended the requirement that local private banks sell all their foreign exchange to the Bank of Guatemala every day and eliminated the daily auction system for foreign exchange. Although the Bank still intervenes occasionally to dampen speculation, there are no longer any delays in acquiring foreign exchange. The government sets only one reference rate, which it applies only to its own transactions and which is based on the market determined commercial exchange rate. Remittances can take the form of dollar denominated government bonds, although the supply of these is limited. A number of banks also offer "pay through" dollar denominated accounts. Under this plan, the depositor makes deposits and withdrawals at a local bank, but the account is actually maintained in a U.S. bank on behalf of the depositor. The holding of dollar accounts in local banks is still prohibited.

The quetzal depreciated 10 percent in nominal terms during 1993. Thus, the quetzal more or less maintained its real value vis-a-vis the dollar last year, after having appreciated about 7 percent in real terms during each of the two prior years. So far in 1994, the nominal value of the quetzal, currently about 5.7 to the dollar, has not changed significantly.

3. Structural Policies

In mid-1992, the government instituted a sweeping tax reform. The income tax was simplified. Individuals now face a three tier income tax structure with a top rate of 25 percent; corporations pay a simple 25 percent flat rate. Most exemptions for value added taxes and most stamp taxes were eliminated. As a result of these reforms, the bases for both the income and value added taxes were broadened considerably. Tariffs on most imports from outside Central America were lowered first to a 5–30 percent band in 1992 and then to a 5–20 percent band in 1993. The main exceptions are on imports of rice, poultry and petroleum products, where tariffs ranging up to 45 percent remain in effect. In addition, the 3 percent surcharge on imports was eliminated in 1992. As a result of this reform, tax revenues increased from 7.4 percent of GDP in 1991 to 8.4 percent in 1992. Since then, however, tax revenues fell to 7.9 percent of GDP in 1993 and are expected to decline further to approximately 7 percent of GDP in 1994. The government's goal is to increase the tax burden to 8.5 percent in 1995, by increasing taxes and by increasing penalties for tax evasion.

Wheat, flour and sugar are virtually the only products on which Guatemala maintains price controls. Direct government control of production is small and decreasing, with growing private participation in key areas such as electricity generation. Even in sectors controlled by the government (telecommunications, for example), foreign companies are generally allowed to compete for contracts on an equal basis with domestic producers.

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, as well. 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. Moreover, there is no consistent pattern or judicial review of administrative regulations.

4. Debt Management Policies

Guatemala's modest foreign debt has been declining for several years. The drop has been most marked in relation to GDP. From 35 percent of GDP in 1990, foreign debt fell to 22 percent by the end of 1992 and to 19 percent by the end of 1993. Public sector foreign debt has declined faster than total external debt, reflecting an increasing reliance on private, rather than public, investment. From 32 percent of GDP in 1990, the external debt of the public sector declined to just 18.3 percent at the end of 1993. During the same time period, debt service increased steadily, reaching 16.3 percent of exports in 1992, as Guatemala cleared its foreign arrears, before falling back to 14.4 percent in 1993. Following its first Paris Club agreement in 1993, the Government reached bilateral agreements to reschedule about a quarter of its approximately 450 million dollars in arrears on official bilateral debt. As of late October, 1994, however, Guatemala was still negotiating the rescheduling of its official arrears with Spain.

In December, 1992, Guatemala signed a 120 million dollar Economic Modernization Loan (EML) with the World Bank. Although Guatemala could have borrowed approximately 70 million dollars under the standby agreement with the International Monetary Fund (IMF), the government decided to treat the agreement as precautionary and never requested any disbursements. Guatemala received the first EML disbursement of 48 million dollars in December, 1992. The second tranche disbursement under the EML, scheduled for June 1993, finally occurred in the beginning of 1994 after the loan was restructured and the government entered into a new, "shadow agreement" with the IMF (following the successful, constitutional resolution of the auto-golpe of May, 1993 and the resultant economic dislocations). The third tranche, rescheduled for June, 1994 has yet to occur, since Guatemala had failed to meet several conditions for disbursement, particularly tax reforms and raising electricity rates. In early 1993, the World Bank provided another 20 million dollar loan for Guatemala's Social Investment Fund. Guatemala is close to meeting the conditions for disbursement of the second tranche of a 130 million dollar financial sector modernization loan from the Inter-American Development Bank.

5. Significant Barriers to U.S. Exports

Exporters to Guatemala enjoy a generally open trade regime. For the most part, imports are not subject to nontariff trade barriers, although arbitrary customs valuation and excessive bureaucracy can sometimes create delays and complications. The vast majority of tariffs has been reduced to a band of 5–20 percent.

Restrictions remain on foreign investment in very few sectors. The Constitution provides the state telephone company, Guatel, with a monopoly on most telecommunications services. The Constitution also designates all subsurface minerals, petroleum and other resources as property of the state. Concessions are typically granted in the form of production sharing contracts. However, the solicitation and contracting process for energy concessions tends to be protracted and nontransparent. Some foreign oil companies also complain that the Guatemalan royalty scale is not competitive with that of other countries. Also, only Guatemalan citizens or corporations which are at least 75 percent owned by Guatemalans can operate radio or television stations. Foreigners can own no more than 30 percent of "small mining" or forestry companies. Ground transportation is limited to companies with at least 60 percent Guatemalan ownership. Licensing requirements for fishing operations are enforced insuch a way as to ensure at least minority Guatemalan participation. Only airlines with at least 51 percent Guatemalan ownership can provide domestic service.

Foreign firms are barred from directly selling insurance or rendering licensed professional services, such as legal or accounting services, in Guatemala. Foreign firms are still able to operate, however, through correspondents or locally incorporated subsidiaries. Most "Big Six" U.S. accounting firms are represented in Guatemala. Restrictions on housing construction are so onerous that they virtually exclude foreign participation.

Sanitary licenses are required for all imports of animal origin. During the past year, the impact of this requirement on U.S. exporters has been negligible. However, recent reports indicate that Guatemala may begin using these license requirements

as nontariff barriers to protect domestic producers. Licenses are also required to import apples and wheat flour.

In addition, all processed foods are required to have Spanish language labels attached. In the past this rule has not been enforced. However, on October 25, 1994, the Government began a to crack down on violators, a move which could significantly impact the 28 million dollars per year in U.S. exports of processed foods to Guatemala, a figure which had been growing rapidly.

6. Export Subsidies Policies

Significant tax exemptions are granted to both foreign and domestic enterprises producing for export. With the rise in coffee prices, there has been no effort to repeat the coffee sector's 1993 bond program which provided a 15 dollar per hundred weight subsidy to exporters (to be repaid with higher coffee prices). The country is not a member of the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

The level of protection provided intellectual property remains inadequate. In general, the Criminal Code contains ineffective penalties for infringement of intellectual property rights and a poorly trained judiciary is slow to provide injunctive relief. However, there have been significant recent improvements. The 1991 GSP petition against Guatemala filed by the Motion Picture Export Association of America was dropped in 1994 after Guatemala passed an antipiracy law and local cable operators generally ceased illegal retransmission of signals. In addition, the current legislature is considering laws to afford more effective protection of intellectual property rights. The government has also announced its intention to accede to the Paris Convention for the Protection of Industrial Property and to the Berne Convention for the Protection of Literary and Artistic Works. Guatemala is named on the Special 301 "Watch List."

Copyrights: While the right to copy, publish and distribute is clearly protected, control over leasing or renting of protected works is not clear under Guatemalan law. Despite membership in the Rome and Geneva Conventions, Guatemalan law does not generally protect sound recordings. Legislation was enacted in 1992 to prohibit pirating for commercial use of satellite television transmissions. As a result, unauthorized retransmission of signals has dropped significantly. However, video piracy remains a problem. Pirated videos are both locally produced (but not for export) and brought in via parallel imports. At the urging of a legitimate distributor, the Government has begun to crack down on video clubs that rent pirated copies. The distributor also plans to work with these clubs to develop a plan for voluntary compliance. In addition, a new copyright law has been drafted for consideration by the Guatemalan Congress early in 1995. This law would impose greater sanctions for noncompliance, as well as protect sound recordings, computer programs, videos and films and the transmission of these works.

Patents: Guatemala's patent law is old and does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is circumscribed by short patent terms (15 years, except for the production of food, beverages, medicines and agrochemical products, which last only 10 years), compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experiments or investigation. Patent rights do not prevent the importation of counterfeits, unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally. To address these issues and bring Guatemalan law in line with international standards, the government is currently drafting new patent legislation for submission to Congress in early 1995.

Trademarks: The Central American Convention for the Protection of Industrial Property (CACPIP) forms the legal basis for the protection of trademarks in Guatemala. Guatemalan law does not provide sufficient protection against counterfeiters, nor does it afford adequate protection for internationally famous trademarks. The right to exclusive use of a trademark, for instance, is granted to whoever files first to register the mark. There is no requirement for use, nor any cancellation process for nonuse. As a result, foreign firms whose trademark has been registered by another party in Guatemala have often had to pay royalties to that party, or buy him out. The Central American countries are currently revising the Convention to bring it more in line with emerging international standards and to simplify the registration process. It is expected that the Government will approve the changes to the Convention in November and submit the Convention to Congress for ratification.

New Technologies: Guatemala makes no specific provision for the protection of trade secrets or semiconductor chip design, although it has signed the Washington

Treaty on Intellectual Property in Respect of Integrated Circuits. Guatemalan copyrights do not currently extend to databases, audiovisual works, or software.

The International Intellectual Property Alliance estimates that in 1993 trade losses due to piracy of motion pictures, records and music, computer programs and books in Guatemala were 2.7 million dollars.

8. Worker Rights

a. *The Right of Association.*—Approximately five percent of the Guatemalan work force is unionized in approximately 900 unions. Bureaucratic procedures necessary to obtain legal authorization to form a union were significantly eased in late 1992, as part of a successful 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. Even though the regulations have yet to be adopted, the time and steps required to register a union have been significantly reduced since the labor code amendments. Union leaders continue to charge, however, that it is more difficult to register a trade union than it is to register a business. They also claim that management often encourages competing unions and/or "solidarity" associations to form when negotiating contracts and that these groups make "no strike" agreements.

In 1992, petitions filed by the International Labor Rights Education and Research Fund (ILRERF) and the AFL-CIO to remove GSP benefits from Guatemala for failure to protect internationally recognized worker rights were accepted for review by the US Government. The review was extended through the end of the 1993–1994 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 generally subject to inordinate delay. The labor court system is badly overloaded. One new labor court was added in 1993 and a second new court was established in 1994. The greatest obstacles to union organizing and collective bargaining are not the law, but the inability of the legal system to enforce the law adequately, the weakness of the labor movement and a continuing enormous excess of labor. 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 partols is voluntary. Human rights groups claim, with some justification in conflictive zones, that coercion is used to recruit some people for these patrols.

d. *Minimum Age for Employment of Children.*—The Constitution provides a minimum age of 14 for the employment of children and, then, only in certain types of jobs. Government statistics indicate that 50,000 children under this age are employed in the formal sector, including agriculture, with only 10 percent having legal permission to work. An unknown number are employed in the informal sector as street vendors, beggars and menial laborers. Enforcement of labor regulations has been given greater emphasis by the de Leon administration; the Labor Ministry has started a program designed to educate parents about the rights of children in the work force.

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 an overcrowded and lethargic labor court system. The selection of all new judges on the supreme court and appellate courts in mid-1994, based on new selection procedures designed to protect against incompetent, corrupt, or politically biased judges is expected to make a major difference, over time, in the honesty and efficiency of the court system. A minimum wage applies to most workers; although the the minimum wages remain low, they were increased for all sectors of the private economy in late 1994 by an average of 35 percent. Surveys carried out by the Labor Ministry indicate, however, that many workers do not receive the minimum wage.

f. *Rights in Sectors With U.S. Investment.*—Guatemala does not register foreign investment, so accurate records of U.S. investment are not available. Union officials say that, in general, international corporations in Guatemala have been respectful of worker rights. The high profile exception continues to be some, mostly Asian-owned firms in the maquila sector, which assemble garments primarily for the U.S. market. U.S. companies operating in Guatemala are more likely to have unions than their Guatemalan competitors and are also generally 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		28
Total Manufacturing		102
Food & Kindred Products	51	
Chemicals and Allied Products	23	
Metals, Primary & Fabricated	−4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	32	
Wholesale Trade		−6
Banking		1
Finance/Insurance/Real Estate		7
Services		3
Other Industries		3
TOTAL ALL INDUSTRIES		138

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

HONDURAS

Key Economic Indicators

[Millions of U.S. dollars [1]]

	1992	1993	1994 [2]
Income, Production and Employment:			
Real GDP (1978 Prices) [3]	2,791	2,889	2,830
Real GDP Growth (pct.)	5.6	3.7	−2.0
GDP (at current prices) [3]	3,221	3,092	2,950
By Sector:			
Agriculture	607	754	N/A
Mining	67	50	N/A
Energy/Water	91	83	N/A
Manufacturing	474	489	N/A
Construction	181	195	N/A
Rents	180	197	N/A
Financial Services	216	288	N/A
Other Services	991	735	N/A
Government/Health/Education	205	192	N/A
Net Exports of Goods & Services	−70	−57	N/A
Real Per Capita GDP (1978 prices)	500	503	493
Labor Force (000s)	1,477	1,521	1,770
Unemployment Rate (pct.)	15.5	15.8	16.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	24.7	12.3	0.5
Base Interest Rate [4]	23.4	26.4	35.0
Personal Saving Rate	19.3	18.8	N/A
Retail Inflation	6.5	13.0	33.0
Wholesale Inflation	10.1	14.6	N/A
Consumer Price Index	6.5	13.0	33.0
Exchange Rate (USD/LP):			
Official	5.8	7.8	8.8
Parallel	5.8	7.8	8.8

Key Economic Indicators—Continued

[Millions of U.S. dollars [1]]

	1992	1993	1994[2]
Balance of Payments and Trade:			
Total Exports (FOB)[5]	833.1	846.0	904.0
Exports to U.S.	431.9	433.4	440.0
Total Imports (CIF)[5]	990.2	1,079.5	1,217.0
Imports from U.S.	539.3	563.0	615.0
Aid from U.S.	95.7	57.0	45.0
Aid from Other Countries	520.8	490.0	N/A
External Public Debt	3,403	3,607	3,612
Debt Service Payments (Paid)	332	296	300
Gold and Foreign Exch. Reserves	544.4	434.5	−81.1
Trade Balance[5]	−157.1	−233.5	−313.0
Trade Balance with U.S.	−107.8	−129.6	−175.0

N/A—Not available.
[1] Exchange rates used are the average official rate for each year cited: 5.75 (1992), 6.82 (1993), 8.8 (1994).
[2] 1994 figures are all estimates based on available monthly data in October 1994.
[3] GDP at factor cost.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.

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 1980'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 doomed Honduras to a decade of low growth rates and declining living standards.

From 1990 until 1993, the Government of President Callejas embarked on an ambitious economic reform program, including dismantling price controls, lowering import tariff duties and removing many nontariff barriers to trade. The Government of Honduras adopted a free market exchange rate regime and legalized/licensed foreign exchange trading houses. Interest rate ceilings were removed. Modern national investment legislation was enacted which mandated generous, nondiscriminatory incentives for local and foreign investment. To confront the chronic fiscal deficit, the Callejas government took measures to increase revenues and slash credit and exchange rate subsidies. Unfortunately, in 1992 and 1993, a sharp rise in public sector investment spending reversed the progress on the fiscal front and raised the deficit to 11.2 percent of GDP for 1993. External grant inflows financed part of the fiscal gap, but the monetized fiscal deficit resulted in a resurgence in domestic inflation.

President Carlos Roberto Reina, inaugurated in January 1994, has taken a series of measures to deal with the fiscal deficit. Reina ordered a 10 percent cut in current spending and negotiated with the IMF a series of economic measures designed to cut the fiscal deficit by four percent. Under President Reina, the restrictive (anti-inflationary) monetary and fiscal policies of the Central Bank have been further tightened. Absolute limits have been imposed on public sector borrowing. The reserve requirement (currently 42 percent) remains the favored policy tool to control money supply growth and inflation.

Honduras became a member of the General Agreement on Trade and Tariffs (GATT) in April 1994, and the accession was ratified by the Honduran Congress that same month. Honduras ratified the Uruguay Round in May 1994 in Marrakesh. Honduras has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policy

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 (cases de cambio). As of June 1992, the Central Bank authorized commercial banks to buy and sell foreign exchange at freely-determined rates. These foreign exchange reforms improved Honduras' export competitiveness in a wide range of industries.

In June 1994, the Central Bank changed to a more restrictive foreign exchange regime. A foreign exchange auction system was introduced by which all foreign exchange in the formal financial system was auctioned daily by the Central Bank. The auction rate then became the legal exchange rate for foreign exchange transactions. This rate is revised with every auction, but is permitted to rise by not more than one percent every three weeks. Commercial banks and exchange houses are no longer allowed to retain foreign exchange purchased from the public, but are required to sell this foreign exchange to the Central Bank within 24 hours. In January 1990, the lempira-per-dollar exchange rate had been two to one for many decades. Since January 1994, the lempira-per-dollar exchange rate has moved from 7.3 to the current rate of 9.2 lempiras per dollar, a 26 percent depreciation.

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. An important byproduct of trade liberalization is the promotion of technology transfer. Among other measures taken was the reduction of tariff barriers to trade, by gradually cutting import duties from a past range of 5 to 20 percent. The Government also removed many protectionist/cumbersome import licensing and prior import deposit requirements.

Pricing Policy: In an effort to boost production incentives, the Government lifted price controls on several hundred consumer and industrial products in 1990 and suspended the operations of the State Marketing Board. In the period 1990–92, price hikes were adopted on gasoline, electricity, water and telephone services. In December 1992, the Government moved to a flexible petroleum pricing system reflecting changes in world market prices. As of September 1994, the only existing government controlled prices were for utilities, public transport, fertilizer, cement, ground roasted coffee and air fares. In October 1994, the Honduran Congress enacted legislation mandating price controls on 26 basic market basket items through the end of 1994.

Tax Policies: Honduras has long maintained a high corporate tax rate. This rate has been generally considered a major disincentive to direct foreign investments not covered by the tax exemptions for export-oriented firms operating in free trade zones and industrial parks. Early in his term, President Reina lowered the top marginal corporate tax rate from above 40 percent to 35 percent. The most important sources of government revenue are the seven percent sales tax and various consumption taxes.

4. Debt Management Policies

Since early 1990, the Honduran government has been working to restore the country's creditworthiness, reschedule its 3.3 billion dollar external debt and regain support from the multilateral development banks. In early 1990, negotiations began with the World Bank (IBRD), Inter-American Development Bank (IDB) and International Monetary Fund (IMF) to pay off arrears and reestablish pipeline disbursements being withheld by these institutions. The payments of 245.7 million dollars in arrears 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, later extended for seven additional months. The standby provided Honduras with 30 million dollars in balance of payments support funds. In the second half of 1990, the IDB and IBRD renewed pipeline disbursements. The IMF program, and repayment of international financial institution (IFI) arrears, paved the way for favorable debt rescheduling terms for 350 million dollars of debt. The Paris Club accord strengthened Honduras' capacity to service its debt with a number of other creditors, including Venezuela, Mexico and OPEC. In 1991, the U.S. government also provided 430 million dollars in debt forgiveness for Honduras. The Honduran government reduced its debt obligations with international commercial banks from 245 million dollars in 1982 to 45 million dollars in 1992. A series of privatizations and conversion mechanisms was used to settle these obligations.

In 1992, Honduras was classified as an IDA-only country. This opened the door to concessional loans from the IBRD's soft loan window. In June 1992, the IMF approved a three-year (1992–95) enhanced structural adjustment facility (ESAF), allowing Honduras to obtain a second favorable Paris Club Agreement in October 1992. In 1993 the Callejas government took on substantial new commercial debt obligations for public investment projects and began to fail to make scheduled debt

service payments to the United States and other Paris Club creditors. The Paris Club agreement was technically suspended in August 1993, pending agreement with the IMF on an economic program and payment of all Paris Club arrears. The Reina government is currently negotiating with the IFIs and the Paris Club. In 1994, Honduras' total external debt obligations total 3.6 billion dollars, well in excess of the country's annual gross domestic product (GDP).

5. Significant Barriers to U.S. Exports

Import Policy: While reforms have gone far to open up Honduras to U.S. exports and investment, a number of protectionist policies remain in place. For example, although all import licensing requirements have been eliminated, Honduras has resorted to an onerous phyto-sanitary system that effectively denies market access to U.S. chicken parts. Similar phyto-sanitary requirements are used to limit U.S. corn exports to Honduras.

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 present. However, these requirements may discourage some suppliers.

Services Barriers: Under Honduran law, special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners are not permitted majority ownership of foreign exchange trading companies. Foreigners cannot hold a seat in Honduras' two stock exchanges, or provide direct brokerage services in these exchanges.

Investment Barriers: Several restrictions exist on foreign investment in Honduras despite the 1992 Investment Law. For example, special government authorization is required for foreign investment in sectors including forestry, telecommunications, air transport and aquaculture. The law also requires Honduran majority ownership in certain types of investment, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources, and local transportation.

Honduran law also prohibits foreigners from establishing businesses capitalized at under 150,000 lempiras. In all cases of investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must be paid to Hondurans. Finally, while a one-stop investment window has been instituted to facilitate investment, this office does not provide complete information or assistance to the foreign investor.

Government Procurement Practices: The Government Procurement Law (Decree No. 148.5) governs the contractual and purchasing relations of Honduran state agencies. Under this law, foreign firms are given national treatment for public bids 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. These 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 Policies

With the exception of free trade zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law (RIT), passed in 1984, allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties and consular fees if the product is to be exported outside Central America. This law also provides a 10 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 the ZIPs are exempt from state and municipal taxes. Firms operating in ZIPs are exempt from income taxes for 20 years and municipal taxes for 10 years.

7. Protection of U.S. Intellectual Property

Until recently, Honduran legislation on intellectual property rights (IPR) dated back to the early 1900s, and provided inadequate protection. In August 1992, a United States government 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 TV companies, forced the Honduran government to move seriously to modernize its IPR regime. On August 31–September 1, 1993, the Honduran congress approved comprehensive, world class copyright, trademark, and patent

laws. Honduras is a signatory to the Berne Copyright Convention and, in May 1993, became a member of the Paris Industrial Property Convention. As part of its application for membership in the GATT, Honduras has committed to the "TRIPS" standard established under the Uruguay Round negotiations. Honduras' recent enactment of modern IPR legislation and its active support of international IPR conventions and agreements pave the way for substantive progress in this area. As part of the GSP review, however, Honduras will have to demonstrate a serious commitment to enforcing IPR protection.

Patents: The Patent Law enacted in September 1993 provides full and effective patent protection for up to 20 years. The exception is patent protection for pharmaceuticals, which are protected for 17 years from the date of patent application. The Patent Law also contains stiff fines and jail sentences for violators.

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 has strict regulations on the registration and use of notorious trademarks, and provides strong penalties against violators.

Copyrights: The piracy of books, music cassettes, records, video tapes, compact discs, cable TV and computer software is widespread in Honduras. The new Copyright Law provides strong protection for copyright owners, however. The Honduran government has committed itself to legalizing the activities of its cable TV companies and video store operators. There are no reliable data on the cost of local piracy to U.S. industry. Before the Honduran cable industry legalized most of its operations, the Motion Pictures Exporters Association of America (MPEAA) estimated the annual loss of revenues from local cable piracy at 2.5 million dollars.

8. Worker Rights

a. *The Right of Association.*—Workers have the legal right to form and join labor unions and, with few exceptions, the unions are independent of the government and political parties. 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 by the constitution and honored in practice. The Civil Service Code, however, stipulates that public workers do not have the right to strike.

A number of private firms have instituted "solidarity" associations, which are essentially aimed at providing credit and other services to workers and management who are members of the association. Organized labor strongly opposes these associations.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is protected by law, and collective bargaining agreements are the norm for companies in which the workers are organized. In practice, management often discourages workers from attempting to organize. Workers in both unionized and nonunionized companies are under the protection of the labor code, which gives them the right to seek redress from the Ministry of Labor. Depending upon the decision of the labor or civil court, employers can be required to rehire employees fired for union activity. Such decisions are uncommon. Generally, however, agreements between management and their union contain a clause prohibiting retaliation against any worker who participated in a strike or union activity.

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, but the Ministry of Labor lacks resources to exercise its responsibility to ensure enforcement. Children between the ages of 14 and 16 can legally work with the permission of the parent and the Ministry of Labor. Violations of the labor code occur frequently in rural areas and in small companies. High adult unemployment and underemployment have resulted in many children working in small family farms, as street vendors, or in small workshops to supplement the family income. According to the Ministry of Labor, human rights groups and organizations for the protection of children, there were no significant child labor problems in Honduras in 1994.

e. *Acceptable Conditions of Work.*—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.

The law prescribes an eight-hour day and a 44-hour workweek. There is a requirement for at least one 24-hour rest period every eight days, a paid vacation of 10 workdays after one year and 20 workdays after four years. The regulations are frequently ignored in practice as a result of the high level of unemployment and underemployment.

f. *Rights in Sectors with U.S. Investment.*—The same labor regulations apply in export processing zones (EPZs) as in the rest of private industry. U.S. firms employing garment workers are active in several EPZs. Working conditions and wages in the EPZs are generally considered superior to those prevailing in the rest of the country. Unions are active in the government-owned Puerto Cortes Free Trade Zone, but factory owners have resisted efforts to organize the new privately-owned industrial parks.

While progress has been made in some maquiladoras towards unionization, a hard line in other, mostly Korean-owned, maquilas has led to plant seizures and blockage of public highways.

Blacklisting is clearly prohibited by the labor code, but nevertheless occurs in the privately owned industrial parks. Some companies in the industrial parks have dismissed union organizers before union recognition was granted.

There are still as many as 50 deaths per year resulting from serious health and safety hazards facing Miskito indian scuba divers employed in lobster and conch harvesting off the Caribbean coast of Honduras. The seafood is destined primarily to the U.S. market.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		144
Food & Kindred Products	(1)	
Chemicals and Allied Products	3	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		15
Banking		5
Finance/Insurance/Real Estate		23
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		223

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1986 base year)	768.7	712.5	546.4
Real GDP Growth Rate [2]	1.4	1.2	2.0
GDP (at current prices).			
By Sector:			
Agriculture/Forestry/Fishing	251.2	320.3	N/A
Mining/Quarrying	297.6	277.2	N/A
Manufacturing	619.1	703.6	N/A
Construction/Installation	407.9	491.5	N/A
Retail Trade	745.1	904.3	N/A
Transportation/Storage/Communication	242.7	303.9	N/A
Real Estate/Business Services	392	429	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Government Services	191.6	360.9	N/A
Other	6.7	23.9	N/A
Total	3153.9	3814.6	N/A
Real GDP Per Capita ($, 1986 base)	314.0	288.2	221.2
Labor Force (000s)	1074.9	1083.0	N/A
Unemployment Rate (pct.)	15.7	16.3	N/A
Money and Prices:			
Money Supply (M2)	1209.5	1549.9	[3] 1372.8
Commercial Interest Rate	46.4	61.3	65.0
Personal Savings Rate	15–28.8	15–25.0	15–30
Retail Inflation	40.2	30.0	39.0
Wholesale Price Index	N/A	N/A	N/A
Consumer Price Index	419.6	546.0	[4] 758.9
Exchange Rate (JD/USD)	23.00	25.11	33.40
Balance of Payments and Trade:			
Total Exports (FOB)	1053.6	1044.5	1200
Exports to U.S.	386.3	379.9	397
Total Imports (CIF)	1775.4	2165.2	2230
Imports from U.S.	943.6	1074.3	1128
AID from U.S. (FY 93, 94, 95)[5]	50.4	34.6	22.5
AID from Other Countries[6]	170.1	429.0	N/A
External Public Debt	3678.0	3647.2	[7] 3608.0
Debt Service Payments (actual)	637.9	542.1	539.9
Net Official Reserves (Dec.)	−50.7	70.8	[8] 194.8
Trade Balance	−721.8	−1120.7	−1030.0
Trade Balance with U.S.	−557.3	−694.4	−731.2

N/A—Not available.
[1] Projected.
[2] Growth rate is based on Jamaican dollars whereas real GDP is shown in U.S. dollars.
[3] Figure is based on January–June data.
[4] Fiscal year ending December.
[5] FY 1995 does not include military assistance.
[6] Commitments from Jamaica's cooperation partners.
[7] Figure is based on January-May data.
[8] Figure is based on January–June data.

1. *General Policy Framework*

Economic Structure: Jamaica is an import-oriented economy with imports of goods and services accounting for two-thirds of GDP. Tourism and the bauxite/alumina industry are the two major pillars sustaining the economy. In 1993 these two industries accounted for about 77 percent (USD 1535.9 million) of the country's foreign exchange earnings. Hence, both GDP and foreign exchange inflows are extremely sensitive to external economic factors. Agriculture employs 24 percent of the workforce, and contributes about eight percent of GDP. The relatively small size of the Jamaican economy, and relatively high costs of production (e.g., interest rates) has reduced the contribution of the manufacturing sector over the last several years to about 18 percent in 1993. However, the Government of Jamaica has made some progress in promoting investment in certain nontraditional export-oriented manufacturing enterprises (especially the garment industry) in the last few years. About 56 percent of Jamaica's work force is employed in the services sector, contributing 59 percent of GDP.

Economic Policies: The Jamaican economy grew by 1.2 percent in 1993, following a growth of 1.4 percent in 1992. The pace of economic growth thus far in 1994 has been modest due to tight monetary and fiscal policies. However, continued high inflation (arising from wage increases, high interest rates, and drought during the latter part of the year, among other factors) has led to declining real incomes for the majority of the population. The government has reduced public sector operations through privatization of certain public entities. To date, about 29 entities have been divested and the government is seeking to divest some 78 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 5–30 percent to 5–20 percent by 1998.

Fiscal Policy: The Jamaican fiscal year (JFY) 1994/95 budget calls for Jamaican dollars (JD) 55.2 billion in outlays, an increase of 27.2 percent over the previous fiscal year's budget, but will be about 10 percent lower in real terms given the 37.1 percent inflation rate in JFY 93/94. The present budget reflects a tight budgetary situation with only 38 percent of the outlay directed to meet the economic development and social needs of the country. The other 62 percent will be used for debt servicing costs (49 percent), Bank of Jamaica losses (3.5 percent), and government employee compensation (8.5 percent).

The government hopes to finance the budget through an expected total revenue of JD 39.9 billion through recurrent, capital revenue, and the capital development fund. The balance is proposed to be financed from external debt (44.7 percent of total deficit) and internal debt (55.3 percent). Furthermore, in order to ease the pressure for foreign exchange and to reduce inflation to the target of one percent per month for FY 94/95, the government has increased the issue of local registered stocks, treasury bills and certificates of deposit (offering high interest rates) 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.

Monetary Policy: The Bank of Jamaica (BOJ) continued to reduce spending demand by issuing long term securities (Local Registered Stock, short-term certificates of deposit (CDs), and T-bills) at very high interest rates (varying from 52 percent in January 1994 to 37.5 percent in October 1994). These increases in deposit yields were transmitted through the financial system and had the effect of raising commercial bank lending rates as high as 65 percent in September 1994. Interest payments on the maturing securities have served to increase liquidity, necessitating additional security offerings. Funds acquired by the BOJ through issuance of CDs were generally borrowed by the government and used to finance current expenditures. It is contemplated that the BOJ will reduce its reliance on CDs as an instrument for mopping up excess liquidity in the future. The BOJ has increased the ceiling on treasury bills recently from JD 7.5 billion to JD 12 billion. Other instruments used by the government to control aggregate demand and stabilize the exchange rate include the reserve requirements of financial institutions (50 percent), and issuing a USD 12.5 million bond (the first such issuance was in September 1993 for USD 20 million). The Bank of Jamaica achieved a positive stock of net international reserves (NIR) by the end of 1993 for the first time since the mid 1970's. The NIR has remained positive through 1994 and has reached the level of USD 316.4 million as of July 1994.

2. Exchange Rate Policy

On September 26, 1991, exchange controls were eliminated to allow for free competition on the foreign exchange market. The principal remaining restriction is that foreign exchange transactions must be effected through an authorized dealer. Licenses are regulated. Any company or person required to make payments to the government by agreement or law (such as the levy and royalty due on bauxite) will continue to make such payments directly to the BOJ. There is also a requirement that 20 percent of foreign exchange purchases by authorized dealers must be paid directly to the BOJ. This represents a significant reduction from the earlier requirement, lifted in July 1994, for 28 percent of foreign exchange purchases to go to the BOJ. A requirement that 25 percent of foreign exchange purchases go to Petrojam (the government monopoly for imports of petroleum) is still in effect but is not fully utilized given the availability of foreign exchange in the system. When Petrojam is privatized, this requirement will, of course, be terminated completely.

With the increased use of foreign currency by importers and other earners of foreign exchange, together with the decline in official inflows, the Jamaican dollar lost ground by 47 percent in December 1993 over December 1992. In an effort to increase the official inflows of foreign exchange, the government introduced and increased the number of cambios as authorized dealers in April 1994. To date, 116 licenses have been issued, although only 46 are in operation. This increase in authorized dealers, along with high interest rates offered on the government securities, has had a positive impact on the inflows of foreign exchange. For the period January-September 1994, foreign exchange inflow into the official trading market increased remarkably by 93.5 percent over the corresponding period in 1993 to USD 996.6 million. The weighted average selling rate of one U.S. dollar was JD 33.45 in September 1994. If this positive trend continues, U.S. exports to Jamaica are likely to increase.

3. Structural Policies

Pricing Policies: Prices are generally determined by free market forces. However, prices of certain items such as domestic kerosene and bus fares are subject to price controls. Prices of these items can only be changed by ministerial approval. In addition, the margins of motor vehicle dealers is restricted to 12.5 percent of CIF plus customs duty on motor vehicles, and between 12.5 to 20 percent on motor vehicle parts. The Fair Competition Act was introduced in 1993 to create an environment of free and fair competition and to provide consumer protection.

Tax Policies: Taxation accounts for 90 percent of total recurrent and capital revenue. Tax revenue includes: personal income tax (38 percent of tax revenue), value-added tax (29 percent), and import duties (12 percent). Although no new taxes have been imposed so far during FY 94/95, the government proposes to raise additional revenue of about JD 723 million through increases in the ad valorem tax on petroleum products, the departure tax, and the general consumption tax on purchases of motor vehicles. Given the increase in the national minimum wage from JD 300 to JD 500 per 40 hour workweek effective July 1994, the income tax threshold was raised from JD 18,408 to JD 22,464 effective January 1994 and will be increased to JD 35,568 effective January 1995. 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 5 percent and 30 percent, with higher rates applicable to certain agricultural items, "non-basic" and finished goods. The tariff rate is to be phased down to 5 to 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. The United States and Jamaica signed a bilateral investment treaty in early 1994.

Regulatory Policies: All monopoly rights of the state Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for concessionary sales such as PL-480. The U.S. Embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external debt fell to JD 3.65 billion in 1993, the lowest since 1986. The average annual decline over the past three years has been 4.2 percent. 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 6 percent to other entities.

Actual debt servicing during 1993 accounted for 22.6 percent (USD 637.9 million), of which 8.42 percent represents interest payments. The debt service burden in 1993 was lower than for any year since 1984. The ratio of total outstanding debt to exports of goods and services declined from 156.3 percent in 1992 to 150.59 percent in 1993 due mainly to debt reduction and improvement in exports. Although the debt per capita improved by 14.6 percent to USD 1,475 over the last four years, debt servicing continues to be a major burden on the government budget (49 percent). Jamaica passed the June IMF test for its Structural Adjustment Program. The current IMF agreement is expected to be Jamaica's last. Jamaica negotiated a new Multi-Year Rescheduling Arrangement (MYRA) with the Paris Club of OECD creditor countries and agencies in 1992. The MYRA provides for rescheduling of USD 281.2 million of principal and interest for the period October 1992 to September 1995.

Under the debt conversion program (reducing foreign commercial debt), about 30 percent or USD 119.4 million of outstanding commercial debt has been converted over the last five years.

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 few.

Customs Procedures: Due to the efforts of the Government of Jamaica, customs procedures are being improved and streamlined. In order to facilitate the movement of goods, the government has simplified the documentation and clearance requirements for exporters. Computerization of the entire system is 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 EX-IM Bank, including access to preferential financing through the Export Development Fund, lines of credit, and export credit insurance. Jamaica does not adhere to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization (WIPO) and respects intellectual property rights. The Jamaican Constitution guarantees property rights and 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 Government of the United States signed a bilateral Intellectual Property Rights Agreement in March, 1994. The U.S. Embassy is not aware of any complaint concerning the protection of intellectual property in Jamaica.

Patents: There are plans to modernize the patents, trademarks, and designs legislation. 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, however, 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. The 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 which entered into force September 1, 1993. The Act adheres to the principles of the Bern 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 a large number of copyrighted motion pictures and television programs each year. However, a draft policy paper on cable television was tabled in parliament in February 1994 which identified 100 unauthorized cable systems involving investment in Jamaica valued at between JD 20–40 million. The government is presently examining submissions from the public before it decides on the final licensing regime for the legal operation of cable television.

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 15 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. Jamaica's largest unions, including the National Workers' Union, have been unable to organize workers in the Free Zone.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age for Employment of Children.*—The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, the practice of child labor is not widespread.

e. *Acceptable Conditions of Work.*—A 40-hour week with 8-hour days is standard, with overtime and holiday pay at time-and-a-half and double time, respectively. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Inspections, however, are limited by scarce resources and a narrow legal definition of "factory."

f. Rights in Sectors With U.S. Investment.—U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors, and most of the firms involved are unionized with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized and only one firm outside the free zones is 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		168
Food & Kindred Products	0	
Chemicals and Allied Products	157	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	11	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		8
Services		20
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,077

[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]

	1992	1993	1994 [1]
Income, Production and Employment:			
GDP (current)	329.3	360.5	368.0
Per Capita GDP (current USD)	3897.3	4186.6	4116.6
Real GDP Growth Rate (pct. over previous year)	2.8	0.4	2.8
By Sector: (current)			
Agriculture/Forestry/Fishing	24.7	26.8	26.5
Mining/Oil/Gas	11.3	12.5	12.5
Manufacturing	75.0	80.6	82.1
Construction	17.3	19.5	19.0
Electricity	4.9	5.5	5.5
Commerce/Restaurants/Hotels	85.8	92.4	94.5
Transport/Storage/Communications	23.1	25.8	26.3
Financial Services/Insurance/Real Estate	35.9	41.0	41.3
Social Services	56.7	62.5	66.7
Labor Force (millions)	27.4	28.0	28.6
Open Unemployment Rate (pct.) (year-end)	3.0	3.7	3.7

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.4	14.4	16.0
Banks' Average Cost of Funds	18.8	18.6	15.3
Financial Savings Rate (M4 as pct. of GDP)	45.6	52.7	57.4
Consumer Price Inflation (Dec-Dec pct. change)	11.8	8.0	6.8
Wholesale Price Inflation	10.6	4.6	6.4
Exchange Rate (year-end Interbank rate) (new pesos. 1NP=1,000 old pesos)	3.115	3.106	3.40
Balance of Payments and Trade:			
Merchandise Exports (FOB)	46.2	51.9	57.2
Exports to U.S.(U.S. Customs Data)35.2	39.6	47.0	
Total Imports (FOB)	62.1	65.4	74.7
Imports from U.S.(FAS)	40.6	41.4	49.0
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	75.8	78.7	81.4
External Debt Service Payments (public sector amort. & interest)	18.4	13.9	16.0
Gold and Foreign Exch. Reserves	18.6	24.5	19.5
Trade Balance	−15.9	−13.5	−17.5
Trade Balance with U.S.	−5.4	−1.8	−2.0

N/A—Not available.
[1] Estimated.

1. General Policy Framework

The new Zedillo Government's decision in mid-December to devalue and subsequently to float the peso provoked a deep financial crisis in Mexico and highlighted the vulnerabilities of the Mexican economy. Principal among these were the overvalued peso, excessive trade and current account deficits, and undue reliance on short-term capital to finance the government and current account deficits. The December crisis has led the Zedillo Government to reinforce its policy commitment to economic reform and adjustment and to enter into discussions with the International Monetary Fund (IMF) on a new macroeconomic stabilization program supported by an IMF stand-by arrangement. The government has also promised greater foreign access in key sectors such as ports, railroads, satellites, telecommunications and financial services as part of its renewed commitment to economic reform and market opening.

In doing so, the Zedillo Government continues to rely on a general understanding with key labor and private sector groups to underpin its economic policy approach. Economic goals have been set and implemented since December 1987 through a series of 14 government/labor/private sector agreements known as economic pacts. Heretofore, the pacts combined dramatic increases in government revenues and reductions in government expenditures, tight monetary policies, and a managed exchange rate policy with voluntary price and wage controls. As a result, 12-month inflation fell from 159 percent in 1987 to a rate of 6.7 percent as of October 1994. At the same time, the average annual rate of economic growth between 1988 and 1994 is expected to be 2.6 percent.

Responding to the December crisis, the signatories of the pact agreed on January 3, 1995 to a new set of austerity measures. Key goals: to temper the inflationary impact of the peso devaluation by tough measures and limiting annual wage increases to seven percent, with additional increases possible for productivity and a negative tax for the lowest paid workers. To reduce Mexico's reliance on foreign financing, the government's new economic program aims to halve the USD 30 billion 1994 current account deficit and to boost domestic savings. Moreover, the program calls for continuing structural reforms within the economy, including a cut in government spending equal to 1.3 percent of GDP and a further wave of privatizations in key sectors. Monetary policy is expected to be tight.

Mexico joined the General Agreement on Tariffs and Trade (GATT) in August 1986 and unilaterally lowered its average tariff level from 100 percent ad valorem to a structure with a top rate of 20 percent. At the same time it reduced or elimi-

nated many non-tariff barriers such as import licenses and quotas. 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 trade deficits in 1990. The trade deficit is expected to reach USD 17.5 billion in 1994. U.S. companies have been the primary beneficiaries of Mexico's trade liberalization since about 70 percent of all Mexican imports come from the United States. In 1994, with the implementation of the North American Free Trade Agreement (NAFTA), U.S. exports to Mexico will be about USD 50 billion, an increase of about 21.7 percent compared to 1993. Mexico has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policies

Prior to the mid-December decision to widen the exchange rate band and subsequently to allow the free flat of the peso, Mexico had relied since November 1991 on a regime by which the peso was allowed to float within a designated band. The rate at which large foreign exchange transactions were conducted fluctuated within a band that was defined by the rates at which banks would buy and sell U.S. dollars on a cash basis. Within the band, the actual exchange rate was determined by market forces with some government intervention. In the run-up to the December devaluation, Mexico's Central Bank reserves declined substantially. At the time of the decision to allow a 13 percent devaluation of the peso, the dollar sold in the interbank market for 3.4647 new pesos. In the final days of December, the peso traded as low as six to the dollar. It closed the year at 5.505 to the dollar.

The value of the peso in U.S. dollars changed little in nominal terms between November 1991 and early 1994. At the same time, Mexican inflation was higher than that in the United States. As a result, during 1992 and 1993 the Mexican peso appreciated in real terms by almost 10.5 percent against the dollar. This appreciation gave Mexican importers an incentive to buy U.S. exports which gained a slight competitive advantage over domestic goods, whose prices were rising more rapidly. Due to political uncertainty in 1994, steady capital outflows caused the peso to lose value against the U.S. dollar. Between January and July 1994, the peso depreciated by about eight percent in real terms. Despite the depreciating peso, U.S. exports to Mexico grew at a faster pace during 1994 than in 1993. Between January and July, Mexican purchases of U.S. goods rose by 18.5 percent compared to a 2.3 percent growth rate in the same period of 1993. Sales of Mexican goods to the United States rose by 19.2 percent in the first seven months of 1994 versus 12.6 percent growth in the comparable period of 1993.

3. Structural Policies

Prior to the financial crisis of the Zedillo Government's early weeks, the Salinas Government sought during its six-year tenure to modernize and increase efficiency of the Mexican economy by promoting greater external and internal competition. The North American Free Trade Agreement (NAFTA) implemented in January 1994, with its side accords for labor and the environmen', and a new dispute resolution mechanism, represents the cornerstone of future Mexican trade policy. Mexico also signed free trade agreements (FTA) with Chile, Costa Rica, Bolivia and a trilateral (G–3) agreement with Venezuela and Colombia. Mexico is negotiating an FTA with the "Northern Triangle" nations of Central America: Guatemala, Honduras, and El Salvador. Mexico's other FTA's (except for Chile, which was negotiated before NAFTA) track, with some variation, the basic objectives of NAFTA.

NAFTA's key features include:

—Progressive elimination of tariffs, non-tariff barriers and quantitative restrictions on traded merchandise.

—Phased and market-share limited opening of Mexico's service industries, including financial services, to U.S. and Canadian firms wishing to invest or provide cross-border services.

—Gradual opening of Mexico's central government purchasing and construction contracts to bidding by U.S. and Canadian firms.

—Establishment of clear dispute resolution and international arbitration procedures to provide proper protection to U.S. and Canadian investors in Mexico.

—Commitment from all parties to afford effective protection for intellectual property rights.

The disincorporation (privatization or elimination) of about 900 state-owned companies since 1986 stands as a major achievement and testimony to the government's belief in the benefits of private enterprise. The process of privatization of state-owned companies has generated USD 22 billion in government revenues and shrunk the number of state-owned firms to under 200 today. During President Salinas' ad-

ministration, important privatization sales included all 18 government-owned commercial banks, the telephone company, a television network, airlines, film theaters, several sugar and food processing plants, large copper mines, and steel production facilities. The privatization drive also opened the door for private investment in Mexico's surface transportation infrastructure such as the modernization of air and maritime ports. In its early response to the December financial crisis, the Zedillo Government has clearly signaled that it will continue to rely on privatization as a key element of its structural reform policy.

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 July 1993, eliminated most non-tariff trade restrictions and established procedures for remedying unfair trade practices such as export subsidies and dumping. The number of unfair trade investigations has grown steadily over the past five years, yet they are, with some exceptions, considered to be conducted in an equitable and transparent manner. Most new regulations affecting U.S. trade have been formulated in anticipation of increased trade under NAFTA. At times, however, 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 automated, and a program to professionalize personnel and weed out corrupt practices is ongoing.

4. Debt Management Policies

Prior to the December financial crisis, Mexico had made considerable strides in regaining access to international financial markets. During 1993, Mexico reaped the benefits of a sound macroeconomic program and the successful renegotiation of its external debt, concluded in February 1990. Greater confidence among investors and creditors has resulted in large investment capital inflows in late 1993 and early 1994 and increased access to international credit markets at progressively more favorable terms. During 1993, public and private sector Mexican companies made 77 issues on international debt markets valued at USD 9.8 billion, or 138 percent above the 1992 level. This situation was largely reversed following the assassination of Luis Donaldo Colosio, the ruling Institutional Revolutionary Party's presidential candidate in March, 1994. The fear and political uncertainty generated by this event resulted in massive capital outflows which were hastened again nine months later by the devaluation crisis. International borrowing slowed over the course of 1994 because political conditions in Mexico and interest rate trends internationally made the environment less hospitable to new issues. Debt flows became increasingly short-term.

Mexico's external debt increased by USD 12.6 billion during 1993 to USD 130.2 billion, or 36 percent of GDP. Most of the increase was on the part of private companies and commercial banks. Public sector debt has been declining as a proportion of total debt. At year-end 1993, public sector debt was 83.5 billion, an increase of USD 3 billion for the year, but USD 2.3 billion below 1988 levels and only 64 percent of all external debt. The ratio of debt service to exports fell to 24.9 in 1993 from 34.0 in 1992.

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 slightly under 200 product categories, many of which are in the agricultural sector. For U.S. and Canadian exporters to Mexico, NAFTA replaced agricultural import licenses with tariff rate quotas and, it may be argued, in some cases with phytosanitary and zoosanitary requirements. The agricultural sector of the NAFTA negotiations was one of the most difficult, with the result that many products will be slowly liberalized over a fifteen-year span. Readers who wish more information in this area should contact the U.S. Department of Agriculture to obtain specialized information.

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 49 percent, rising to 100 percent in January 1999. The Automotive chapter of NAFTA has created new opportunities for U.S. automobile manufacturers and parts suppliers in Mexico. One of the eye-catching commercial stories in Mexico in 1994 was the success of new imported automobile models in the Mexican market. Mexican auto-

mobile imports jumped from 3,278 units in 1993 to 25,729 units in the first six months of 1994, capturing 13 percent of the domestic retail market.

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 wholly-owned 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.

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. In early 1995, the government announced it would open satellite services to foreign participation. Long distance telephone service is reserved for Telmex until 1997 by a concession the government announced in January 1995. Numerous American companies have shown interest in participating in this market when it opens.

Financial Services: Mexico's Foreign Investment Law permits foreign investors to own minority interests in most Mexican financial services companies (banks, brokerages, insurance companies, etc.) while they may not invest in foreign exchange houses and credit unions. The NAFTA provides an exception for U.S. and Canadian companies which can establish wholly-owned subsidiaries in most financial sectors, subject to initial market share limits that will be eliminated in the year 2000. U.S. and Canadian companies submitted 102 applications to establish Mexican subsidiaries, and by late October 1994, 52 of these had been approved, including 18 requests to establish banks. Foreign banks and brokerage houses may also set up representative offices in Mexico. The government indicated in early 1995 that it intends to accelerate the timetable for foreign participation in financial services but full details were not available as of the end of January.

Motor Carriers: As a result of bilateral consultations and the Mexican Government's deregulation of truck and bus operations, U.S. truckers and charter bus operators now have substantial access to Mexico. Although full trucking authority for U.S. carriers is still limited to the border commercial zone, U.S. freight carriers have open access for trailer entry into Mexico and may thus deliver door-to-door. Mexican tractors and drivers are required by law to haul all trailers bound for interior points, but this has not been considered a major obstacle by U.S. transportation companies. This practice, however, does increase risks for shippers of goods. U.S. charter tour buses now have full access to all points in Mexico; regularly scheduled bus operations are restricted reciprocally to the border zones. Mexican authorities are implementing new safety, weight and dimension regulations to meet U.S. standards, and the two countries are preparing for the standardization and reciprocal recognition of commercial drivers' licenses. A schedule for full liberalization has been negotiated under NAFTA. In December 1995, U.S. trucks will be allowed access to all of Mexico's border states for the delivery and haul-back of cargo. By January 2000, this access will be extended to all of Mexico's territory.

Standards, Testing, Labeling and Certification: The Government of Mexico has traditionally been the primary actor in determining product standards, labeling and certification policy, with some input from the private sector and less from consumers. But the 1992 Law on Metrology and Standards included a provision for the establishment of private standardization and certification bodies, as well as for private sector certification services to regulatory bodies. A U.S. Government officer will be stationed at the U.S. Embassy permanently starting in January 1995 to cooperate in standards' development.

The 1992 law also 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.

Under the NAFTA, Mexico has reaffirmed its GATT obligations to base its obligatory norms on international standards. Mexico is working to make its standards compatible with U.S. standards in a number of sectors, and to recognize U.S. standards-certifying entities beginning on the fourth year after NAFTA's entry into force. Toward the end of 1994, Mexico revised its testing and certification procedures to require more frequent re-testing of products or, in its stead, certification of importers' quality control procedures to ensure that tested products are representative of production models.

Investment Barriers: The National Foreign Investment Commission, chaired by the Secretary of Commerce and Industrial Development, decides questions of foreign investment in Mexico. The country's constitution and new Foreign Investment Law

of December 1993 reserve certain sectors to the state (such as oil and gas extraction and the transmission of electrical power) and a wide range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation, and gas distribution). Despite these restrictions, the Foreign Investment Law greatly liberalizes the investment process and eliminates the requirement for government approval in around 95 percent of foreign investment applications.

Provisions contained in NAFTA will open Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies' national treatment, the right to international arbitration and the right to transfer funds without restrictions. NAFTA will also eliminate some barriers to investment in Mexico such as trade balancing and domestic content requirements. Mexico has already implemented its commitment under NAFTA to allow, since 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 in the chemical sector on all but eight basic petrochemicals reserved to the state.

Investment restrictions exist prohibiting foreigners from acquiring title to residential real estate within 50 kilometers of the nation's coasts and 100 kilometers of the borders. The new Foreign Investment Law eliminated these restrictions for all nonresidential property. Foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. In addition, both foreigners and Mexican citizens may encounter problems with enforcement of property rights. Only Mexican nationals may own gasoline stations, whose gasoline is supplied by Pemex, the state-owned petroleum monopoly. These gasoline stations only carry Pemex lubricants although other lubricants are manufactured and sold in Mexico.

Government Procurement: There is no central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers, subject to guidelines issued by the Finance Ministry. Suppliers from all countries, whether GATT members or not, may bid on government tenders, and requirements for participation are the same for foreign and domestic suppliers. In 1991, Mexico abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. But Mexico's new procurement law, enacted in 1994, distinguishes between procurement contests open to national versus international suppliers. The law vaguely acknowledges Mexico's procurement obligations under NAFTA and other international trade agreements. Still, Mexican nationals 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 increase U.S. suppliers' 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 immediately opened 50 percent of PEMEX and CFE procurement to U.S. suppliers and this percentage will increase in steps until all PEMEX and CFE procurement is open by the tenth year.

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. Fine tuning of this directive has allowed large, frequent importers to be exempted from its bond-posting requirements.

In September 1994, the Mexican Government began to require certificates of origin for all goods subject to Mexican unfair trading orders, and imposed more stringent proff of origin requirements for textiles, apparel and footwear produced in certain South and East Asian countries. The directive has disrupted some U.S. retailers' inventory and logistics systems, precluding them from exporting such third-country goods to stores in Mexico. The Mexican Government is expected to come to an understanding to exempt certain large volume U.S. exporters from the directive's most burdensome requirements.

Traders and Mexican customs brokers (by law, imports into Mexico must be handled by Mexican customs brokers) agree that Mexican customs procedures have improved in recent years. Remaining complaints center on vaguely worded regulations that prescribe excessively strict penalties, and a general increase in customs' assessment of minor infractions and fines.

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. Provisions for promoting exports in Mexico's new foreign trade law are limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales. 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 Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention and the Brussels Satellite Convention.

The Mexican Government strengthened its domestic legal framework for protecting intellectual property by amending its 1991 industrial property law (patents and trademarks), effective October 1, 1994, to create the Mexican Institute for Industrial Property (IMPI) and give this agency enhanced powers to implement and enforce Mexico's IPR laws. The amended law clarifies the protections afforded inventions related to living materials by excluding specific processes from patent protection. It also incorporates Mexico's IPR obligations under NAFTA. These NAFTA provisions will further strengthen IPR protection by providing for nondiscriminatory 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. Product patent protection was extended to all processes and products, including chemicals, alloys, pharmaceuticals, 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 10-year renewable periods. One of the new features of the amended law is that it is sufficient for a company to have its mark recognized among the U.S. industry to be protected in Mexico.

At the same time, Mexico has requested and received over 600 pages of private sector comment on amending its copyright law of August 1991 to bring it into accord with the most up-to-date international practices. The amended copyright law should be promulgated in early 1995. The 1991 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 several million pirated audio and video cassettes between 1992 and the end of 1994, music industry sources estimate that two out of every three audio tapes sold in Mexico still are pirated products (an annual loss of about USD 240 million). These raids have affected street vendors and have closed some pirate cassette fabrication operations. However, the ease in which pirate tapes may be fabricated and the continued growth of the informal sector economy create a major challenge for the Mexican Government. In an effort to put teeth into its IPR laws, the Mexican Government formed a commission in October 1993 to cut through the bureaucratic obstacles hindering effective action. Much work remains to be done in combatting piracy in Mexico, but the Mexican authorities have demonstrated their interest in making substantial progress in intellectual property enforcement.

8. Worker Rights

For an introduction to the Mexican labor law, see "A Primer on Mexican Labor Law" (USDOL) and "A Comparison of Labor Law in the United States and Mexico an Overview" (USDOL 1992). In general, worker benefits mandated by law include paid vacations, maternity leave, end-of-year bonuses, generous severance packages, mandatory profit sharing and social security coverage, including comprehensive medical care, plus 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. Once formed, unions must register with the labor secretariat or equivalent state government authorities to acquire legal status to function. In theory, registration requirements are not onerous, involving the submission of basic information about the union. However, there are allegations that the federal or state labor authorities use this administrative procedure improperly to withhold registration from

groups considered disruptive to government policies, employers, or unions. Unions and labor centrals are free to join or affiliate with international trade union organizations and do so.

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, or a strike notice by a union, an employer must recognize the union concerned and make arrangements for a union recognition election or to negotiate a collective bargaining agreement. 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 had been institutionalized in many sectors 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, but this is less-and-less common.

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 16 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 good at large and medium-sized companies; less pervasive at small companies. As with employee safety and health, the worst enforcement problem lies with small companies and the informal sector. 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 Work Conditions.*—The Constitution and the FLL provides 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 January 1994, the minimum wage was 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 Work place" issued jointly by STPS and Mexico's Institute of Social Security. The focal point of standard setting and enforcement in the work place 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 work place 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 work place committees.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		10,802
Food & Kindred Products	2,334	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	2,392	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	605	
Transportation Equipment	2,218	
Other Manufacturing	2,438	
Wholesale Trade		823
Banking		(1)
Finance/Insurance/Real Estate		912
Services		316
Other Industries		2,258
TOTAL ALL INDUSTRIES		15,413

[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]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1991 dollars)	1,781.2	1,765.2	1,800.5
Real GDP Growth (pct.)	0.4	−0.9	2.0
GDP by Sector:			
Agriculture [2]	434.6	437.8	448.3
Energy/Water	55.2	56.5	57.6
Manufacturing	399.0	391.9	397.9
Construction	53.4	54.7	55.8
Rents	74.8	74.1	75.6
Financial Services	57.0	56.5	59.4
Other Services	78.4	79.4	81.0
Government/Health/Education	199.5	195.9	198.0
Net Exports of Goods & Services [3]	−567.0	−430.0	−426.1
Real Per Capita GDP (USD)	430.4	414.4	410.1
Labor Force (000s) [4]	1,445.4	1,489.5	1,543.7
Unemployment Rate (pct.)	17.8	21.8	23.5
Money and Prices: (annual percentage growth unless otherwise noted)			
Money Supply (M2)	21.1	8.0	16.5
Rediscount Rate (pct.) [5]	13.0	13.0	10.5
Personal Saving Rate (pct. of GDP) [6]	−15.2	−14.6	−13.3
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	3.5	19.5	13.5
Exchange Rate (cordobas:USD)			
Official	5.00	6.32	7.08
Parallel	5.34	6.42	7.43
Balance of Payments and Trade:			
Total Exports (FOB)	223.1	226.9	328.9
Exports to U.S. (FOB)	52.0	125.9	121.1
Total Imports (CIF)	855.0	727.7	786.0

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Imports from U.S. (CIF)	220.0	149.8	164.5
AID from U.S.[7]	114.7	80.5	80.9
AID from Other Countries[8]	644.8	306.2	482.1
External Public Debt	10,808.2	10,987.0	11,553.0
Debt Service Payment (paid)	194.0	178.0	272.0
Gold and FOREX Reserves (gross)	179.1	87.7	109.1
Trade Balance[9]	−551.2	−390.0	−389.1
Trade Balance with U.S.[9]	−147.2	−23.2	−28.6

N/A—Not available.
[1] Figures are all annual projections based upon 8–9 months of data.
[2] Agriculture does not include livestock and fisheries.
[3] Does not include interest payments or debt service.
[4] Defined as working age population as reported by the Nicaraguan Ministry of Labor.
[5] Central Bank rediscount rate.
[6] Based upon IMF figures.
[7] Includes all non-military aid granted.
[8] Includes total grants and credits received minus U.S. aid.
[9] Trade balance is calculated on FOB basis.
Sources: International Monetary Fund (IMF), the World Bank, and the Central Bank of Nicaragua unless otherwise noted.

1. General Policy Framework

Over the period 1990–93, the Government of Nicaragua focused on making the transition from a centralized to a market-oriented economy, and on reversing the severe mismanagement of the economy during the Sandinista era, which had resulted in a 25 percent drop in real GDP and 50 percent drop in GDP per capita during the 1980's.

During the first four years of the Chamorro Administration, the currency was stabilized and inflation brought under control. The cordoba is presently devalued against the dollar on a crawling-peg basis of 12 percent per annum, and inflation has fallen from 13,490 percent in 1990 to an estimated 13.5 percent in 1994. The executive implemented various structural adjustment measures, including the successful privatization of more than 300 of the 350 non-financial public sector companies it inherited from the previous government. A Superintendency was created to supervise the banking sector, which now includes nine private banks and three state-owned institutions. The Government of Nicaragua has also reduced tariffs, eliminated most non-tariff trade barriers, and greatly relaxed foreign exchange controls.

All of these measures were designed to pave the way for economic expansion. To date, however, the anticipated growth has failed to materialize, as real GDP growth has remained stagnant, registering rates of 0.4 percent in 1992 and −0.9 percent in 1993. Estimated growth of 4 percent in 1994 has been revised downward to 2 percent due to a drought which damaged the first agricultural planting cycle and an accompanying energy shortage which has resulted in mid-1994 in power cutoffs of 4 hours per day. The lack of credit to the productive sector continues to be a major stumbling block to growth, and private investment flows remain limited as concerns over property rights and political stability persist.

In June 1994, the Government came to agreement with the IMF on an Enhanced Structural Adjustment Facility (ESAF)—a 3-year program designed to maintain stability and generate growth. Consequently, the stage has been set for continued lending from international financial institutions and other bilateral donors, including an Economic Recovery Credit from the World Bank. These 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 1.1 billion dollars for 1994.

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 5:1. With its devaluation, the Government set the cordoba at 6:1, with a crawling-peg schedule adjusted daily, at an annual rate of 5 percent. This schedule was accelerated in November 1993 to an annual rate of 12 percent. A parallel exchange market, legalized in September 1991, continues to operate, supplying foreign currency for virtually all types of exchange transactions. The spread between the official and parallel markets has been generally maintained at 2–4 percent.

Foreign exchange generated from the export of most traditional products (e.g., beef, coffee, sugar, cotton) must be surrendered to the Central Bank, although private banks can accept the dollars as agents of the Central Bank. Remittance of profits generated through foreign investments, as well as original capital 3 years following investment, is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, although these transactions are not guaranteed by law. Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991.

3. Structural Policies

Pricing Policies: Since taking office in April 1990, the Chamorro Administration has 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 utility charges. However, the Central Government (i.e., the 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 shortages to maintain domestic supplies and moderate prices.

Tax Policies: Nicaragua maintains a maximum tariff level (DAI) on virtually all imports of 20 percent of CIF value. An additional Temporary Protection Tariff (ATP) of 5–15 percent of CIF value is levied on some 900 imported items, largely goods also produced in Nicaragua. Some 750 other products (whether imported or locally produced) are assessed a Specific Consumption Tax (IEC), generally limited to 15 percent of CIF value. A stamp tax of 5 percent (ITF) is levied on all imports. The country@s 15 percent sales tax (IGV) is charged (in a cascading fashion) on entry of all imported goods that are not categorized as basic food basket items. Overall import taxation levels on "fiscal" goods are particularly high.

The highest income tax rate is 30 percent (for taxpayers earning more than 180,000 cordobas yearly—or about 25,000 dollars at the official exchange rate. Individuals earning between 100,000 and 180,000 cordobas are taxed at a rate of 26 percent; between 60,000 and 100,000—20 percent; between 40,000 and 60,000–12 percent; and between 25,000 and 40,000—7 percent. Individuals earning less than 25,000 cordobas yearly are exempt from income tax. Corporations are levied taxes at a flat rate of 30 percent. In addition, busines income is subject to a series of municipal and special taxes, such as the 2 percent tax on sales charged by the Municipality of Managua.

4. Debt Management Policies

Although it inherited an enormous foreign debt burden from the previous government, the Chamorro Administration succeeded in clearing its total arrears to the World Bank and IDB in 1991 with the assistance of grant contributions from the international community. This made Nicaragua eligible to receive new credits from the multilateral development banks, and the country began to renegotiate its bilateral debt. Nicaragua entered into agreements with Mexico, the United States, Venezuela, Colombia, and Argentina for rescheduling, debt swaps, and/or debt forgiveness. Over the past 2 years, Nicaragua has held discussions with Russia over the large debt owed to the former Soviet Union. Similarly, Nicaragua continues to seek renegotiation of its debt of roughly 1.7 billion dollars to private foreign banks, via a buy-back mechanism. However, Nicaragua's foreign debt still totals more than six times its GDP and more than 35 times its annual merchandise exports.

In December 1991, the Paris Club creditors agreed to grant Nicaragua the most favorable rescheduling terms offered by the club to date. In April 1993, Paris Club members made new pledges of 46.8 million dollars, which, although significant, still left Nicaragua with a substantial financing gap. That gap was closed by additional sources of assistance, new austerity measures, and the suspension, beginning September 1993, of pre-cutoff day (October 31, 1988) Paris Club obligations.

In August 1994, Germany and Nicaragua reached agreement for an overall 70 percent forgiveness of the 180 million dollars subject to the 1991 Paris Club agreement. This set the stage for a second round of Paris Club talks to beheld in early 1995 to deal with the remaining bilateral debt, the majority of which (approximately 500 million dollars) consisting of debts to the former German Democratic Republic (East Germany). It is anticipated that Nicaragua will seek even more favorable treatment ("enhanced Toronto Terms") at the talks, requesting up to two-thirds forgiveness of its remaining debt.

5. Significant Barriers to U.S. Exports

Import Licenses: In most cases the issuance of import licenses is a formality, or at worst an inconvenience. U.S. pharmaceutical importers, however, continue to complain that licensing procedures, continually under review due to a process of regional harmonization of such regulations, can continue to delay the entry of some U.S. pharmaceutical products.

Service Barriers: 1991 legislation allowed the establishment of the first private banks in Nicaragua in a decade. Nine private banks are now in operation in a 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 paperwork. Insurance activities are currently in the hands of a state monopoly. However, legislation is pending in the National Assembly that would allow private sector participation in the insurance sector.

Investment Barriers: An investment law, passed in June 1991, allows 100 percent foreign ownership in virtually all sectors of the economy, guaranteed repatriation of profits, and repatriation of original capital 3 years after the initial investment. However, to benefit from this law, investments must be approved by the Foreign Investment Committee which analyzes the proposal based upon various criteria. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews and a requirement for repatriation of 100 percent of the catch (i.e., domestic processing for eventual export). In early 1993, the Government of Nicaragua lifted its moratorium on lumbering in state forests (representing over 50 percent of the country@s forest area); but authorities painstakingly review all project proposals in this sector.

The Government continues to move forward with privatizing state-owned companies in government-dominated sectors. In the mining sector, a private worker-owned consortium is active, and several foreign companies have initiated operations. In October 1993, the Government began the pre-qualification bid process for privatization of the national telecommunications company, which was scheduled to be finalized by October 1994. However, the privatization still awaits National Assembly approval and at this writing it is unclear when such approval will be granted. The Government also is in the process of drafting legislation which would allow for the liberalization of petroleum imports, establish an oil exploration regime, and explicitly grant the private sector the right to generate electrical power. At this time, the legislation is still under executive review.

Definition of property rights continues to remain an obstacle to both domestic and foreign investment. Claims for thousands of homes and businesses, as well as large tracts of land, confiscated without compensation by the Sandinista government of Nicaragua have yet to be resolved. In early 1993, the Chamorro government's administrative property claim resolution mechanism began to process claims for some 16,000–18,000 individual pieces of property. A small number of properties have been returned to original owners; other cases have been settled through the issuance of long-term compensation bonds.

The current market value of these bonds remains a matter of concern. Trades of the securities on the stock market have ranged from 17–28 percent of face value. As of November 1994, informal trading on the secondary market has settled at 19–21 percent of face value. The bond compensation program remains controversial, as the majority of U.S. citizen and Nicaraguan claims have not been resolved, and most claimants believe their properties should be more fully compensated.

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" firms are able to bring in the same goods at greatly reduced tariff rates and then offer these under-priced goods on the open market.

6. Export Subsidies Policies

An export promotion decree, signed in August 1991, established 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 exemption on payment of 80 to 60 percent of income tax liabilities on a sliding scale from 1991 to 1996, after which the benefit will be eliminated. 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 on this merchandise. The decree also allows for preferential access to foreign exchange at the official rate for exporters of non-traditional goods.

One of the more attractive benefits of the export promotion law is 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 5 percent in 1996.) In May 1993, the first group of Nicaraguan exporters received the certificates, valid for payment of tax and duties, or payable 24 months from the date of issue.

7. Protection of U.S. Intellectual Property

In 1990, the Nicaraguan government committed itself to "provide adequate and effective protection for the right to intellectual properties of foreign nationals" in the context of requesting designation as a beneficiary of the Caribbean Basin Initiative Recovery Act. Current levels of protection, however, still do not meet modern international standards.

Although unfortunately unable to dedicate extensive resources to the protection of intellectual property rights, the Government of Nicaragua is in the process of evaluating and modernizing its intellectual property rights regime. Drafts of a new patent law and a new copyright law are under review. The trademark law in Nicaragua, codified in the Central American Convention for the Protection of Industrial Property, is currently undergoing revision by the four signatory countries (Nicaragua, Costa Rica, Guatemala, and El Salvador).

The Government has publicly committed itself to accede to the Paris Convention for the Protection of Industrial Property, and to the Bern Convention on Copyrights. As of this writing, the Government has acceded to neither convention. However, Nicaragua is a signatory to the following copyright conventions:

—Mexico Convention on Literary and Artistic Copyrights (1902)
—Buenos Aires Convention on Literary and Artistic Copyrights (1910)
—Inter-American Copyrights Convention (1946)
—Universal Copyright Convention (Geneva 1952 and Paris 1971) Brussels Convention on Satellites (1974)

Trademarks: Notorious trademarks represent a problem area for Nicaragua. Current Nicaraguan procedures allow individuals to register a trademark without restriction, at a low fee, for a period of 15 years.

Copyrights/New Technology: Pirated videos are readily available in nation-wide video rental stores, as are pirated audio cassettes. 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 private television stations similarly transmits (often from video cassettes) pirated U.S. films. A report prepared in September 1992 by the International Intellectual Property Alliance estimated that losses in Nicaragua due to copyright infringements involving books and the motion picture industry cost U.S. firms 1.3 million dollars annually.

8. Worker Rights

a. *The Right of Association.*—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 workforce, including agricultural workers, is unionized. 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, and, despite unfamiliarity with the practice following 10 years of central planning under the Sandinista regime, collective bargaining is becoming more common in the private sector. The International Labor Organization@s Committee of Experts on the Application of Conventions and Recommendations issued a report in 1992 asserting that the Nicaraguan law which requires collective agreements to be approved by the Ministry of Labor before they come into force violates the Convention on the Right to Organize and Bargain Collectively, ratified by Nicaraguan in 1967. No action has been taken to modify this provision, although the Labor Code is currently being revised by the National Assembly.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, 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. Education is compulsory to age 12, and children under the age of 14 are legally not permitted to work. Nevertheless, because of the prevailing economic difficulties in Nicaragua, reportedly more than 100,000 children are members of the

workforce, particularly in the agricultural and informal commercial sectors of the economy. The child labor law is, however, generally observed in the modern, formal segment of the economy.

e. *Acceptable Conditions of Work.*—The standard legal work week is a maximum of 48 hours with one day of rest. Health and safety standards are extensive, but not strictly enforced due to an insufficient number of inspectors. Sectoral minimum wages were set in mid-1991, but, according to a study by the Government's National Commission on the Standard of Living, the minimum wage does 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. However, Ministry of Labor surveys indicate that some 86 percent of urban area workers earn more than the minimum wage.

f. *Rights in Sectors with U.S. Investments.*—The above rights are 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
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		2
Banking		0
Finance/Insurance/Real Estate		0
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

PANAMA

Key Economic Indicators

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

	1992	1993[1]	1994[2]
Income, Production and Employment:			
Real GDP (1985 prices)	5,477	5,801	6,091
Real GDP growth (pct.)	8.6	5.9	5.0
GDP (at current prices)	6,001	6,562	6,975
GDP Share by Sector: (pct.).			
Agriculture/Forestry/Fisheries	10.6	10.1	9.8
Manufacturing	9.2	9.3	9.1
Utilities	3.2	3.2	3.2
Construction	5.1	6.7	7.7
Commerce/Hotels/Restaurants	11.8	11.9	11.9
Panama Canal	9.2	8.6	8.4
Oil Pipeline	1.7	0.8	0.3
Colon Free Zone	8.1	8.6	9.0
Transport/Communications	7.2	7.4	7.3

Key Economic Indicators—Continued

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

	1992	1993[1]	1994[2]
Finanace/Insurance/Real Estate	14.6	14.9	15.4
Government Services	11.7	10.8	10.6
Other	7.5	7.4	7.3
Real GDP Per Capita (1985 prices)	2041	2167	2256
Labor Force (000s)[3]	921	949	979
Unemployment (official rate)[3]	13.1	12.5	11.9
Money and Prices:			
Money and Quasi-Money (M2)	3,535	4,300	3,916
Commercial Interest Rates			
Fixed deposit (pct.)	5.5	5.0	5.3
Average lending (pct.)	11.0	10.5	10.8
Gross Savings (pct. GDP)	17.3	16.0	16.7
Gross Investment (pct. GDP)	22.7	20.0	21.4
Consumer Prices (pct./annual average CPI)	1.8	0.9	1.4
Wholesale Prices (pct./annual average)	2.7	2.5 (2.6)	
Exchange Rate (balboa:USD)	1:1	1:1	1:1
Balance of Payments and Trade:			
Total Merchandise Exports (FOB)	481	500	520
Exports to U.S. (pct.)	45	45	45
Total merchandise imports (CIF)	1,827	2,007	2,205
Imports from U.S. (pct.)	40	40	40
Aid from U.S. Government	234	42	21
External Public Debt	5,204	5,369	5,539
Debt Service Paid[4]	230	234	238
Foreign Assets	504	566	636
Balance of Payments			
Current Account	−41	−16	N/A
Foreign Investment	1	2	N/A

N/A—Not available.
[1] Estimated.
[2] Projected.
[3] Data revised October 31, 1994.
[4] Excludes clearance of arrears to International Financial Institutions (IFI's) 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 transisthmian 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 10 percent of GDP. Growth of Panama's economy continues to slow from the previous four years (the high point was reached in 1991, with a high point of 9.6 percent), with 1994 growth projected at 5.0 percent, down from 1993's 5.9 percent and 1992's 8.6 percent. As in preceding years, private construction and capital goods spending plus CFZ activity and certain services exports have been the main sources of growth. A slight upswing in Panama Canal traffic and revenues has also boosted growth.

The new government, which took office September 1, 1994 has announced its intention to address directly a past failure by policy-makers to follow through on key economic policy reforms: reduction of the public sector payroll, liberalization of the trade regime, privatization of state-owned enterprises, and encouragement of job-creation through labor code reforms. Decisive government action in these areas will be key to Panama's current application to join the GATT and the soon-to-be-formed World Trade Organization, the establishment of increased investor confidence, and the resolution of Panama's large outstanding foreign debt. In the absence of effective action, growth in all sectors is likely to be negatively affected, and job creation will begin to lag behind population growth. Although a comprehensive national economic plan has been released which incorporates the above concerns, as of the date of this report there had been no specific implementation of proposed reforms. Medium-term prospects for strong economic growth and job-creation are therefore uncertain, pending further policy developments.

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 non-tariff 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 newly elected Government of Panama, which took office on September 1, 1994, has declared its policy commitment to trade liberalization, and has published an ambitious but disciplined national economic plan. The plan has as its centerpiece Panama's accession to GATT/WTO, and the associated trade liberalization measures which accession will require. The new government is also emphasizing fiscal discipline, internal savings, partial privatizations of some public entities and utilities, revision of the inflexible labor code, elimination of price controls and establishment of an antitrust law and enforcement authority, and health and housing programs to ease the severe rural and urban poverty and high unemployment which reflect Panama's very uneven distribution of wealth and income.

In the area of trade liberalization, any lowering of tariff and non-tariff barriers would build on the previous government's conversion from specific tariffs to an ad valorem system on about 280 tariff line items. Current tariff rates for industrial products are set at 40 percent for agroindustrial products. Some 227 product classifications carry a 50 percent tariff, while a 60 to 90 percent rate applies to some 60 sensitive agricultural products.

Panama is an observer to the General Agreement on Trade and Tariffs (GATT), but applied for full GATT membership in May 1993. Bilateral and multilateral working party meetings on Panama's application have already been held.

Panama enacted a new tax law in December 1991 and a privatization framework law in July 1992. The tax reform act reduced corporate income tax rates to 30 percent effective as of 1994. The 1991 privatization law resulted in very few actual privatizations. It is likely that any of the privatizations being considered by the new government will, if carried out, be performed pursuant to fresh legislation.

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, and took steps in 1993 and 1994 towards normalizing relations with foreign commercial creditors (bondholders, commercial banks, and suppliers); Panama's accrued commercial debt, including interest, stands at about 5.3 billion dollars.

Panama remains current on interest and principal payments to U.S. government creditor agencies. Some 1994 disbursements from International Financial Institutions of previously agreed credits were suspended, however, due to the previous GOP's failure to satisfy all IFI conditions, most prominently a failure to privatize and to reduce the size of the public sector sufficiently. The GOP remains committed to reaching an agreement with its external commercial creditors. In October 1994, shortly following announcement of its national economic plan, the GOP signed an agreement with the Inter-American Development Bank (IBD) whereby IBD will provide up to 750 million dollars between 1995–1996 for a variety of social welfare and infrastructure improvement projects.

5. Significant Barriers to U.S. Exports

The new government's economic reform program is still largely inchoate, but appears strongly oriented toward export-led policies designed to attract increased foreign investment. At the same time, the Panamanian economy remains, for now, one of the most heavily protected ones in Latin America.

The Panamanian agricultural sector is protected by significant non-tariff barriers. Agricultural products such as rice, 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. The new government's agriculture ministry has an-

nounced its intention to enforce strictly the prior approval requirement (Decree 15 of May 18, 1967) for all imports of meat products, in addition to phytosanitary requirements.

IMA maintains a list of 48 agricultural products under import quota and 30 products under import permit. The prior 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.

Non-agricultural 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.

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 10 percent of the blue-collar work force, however, and specialized foreign or technical workers may number no more than 15 percent of all employees in a business. Disinvestment may be difficult for foreign (and Panamanian) companies involved in labor-intensive production, because of labor code regulations, which restrict dismissal of employees and require large severance payments. The current government is considering modifications to the labor code.

6. Export Subsidies Policies

Export subsidies policies benefit both foreign-owned and domestic export industries. The tax credit certificate (CAT) is a major export subsidy. CATs are given to firms producing nontraditional exports when the exports' national content and national value added both meet minimum established levels. Exporters receive CATs equal to an amount that is 20 percent of the exports' national value added. The certificates are transferable and may be used to pay tax obligations to the government. They can also be sold in secondary markets at a discount.

A number of industries that produce exclusively for export 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. Companies that benefit from these exemptions are not eligible to receive CATS for their exports, however.

7. Protection of U.S. Intellectual Property

Panama recently passed major legislation (Law No. 15 of August 8, 1994) intended to modernize its copyright protection regime and is also considering legislation to strengthen industrial property (patents, trademarks, and trade secrets) protection. Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, and the Universal Copyright Convention, but it is not a member of the Bern Convention for the protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, or the Central American Copyright Convention.

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 new copyright law, which takes effect January 1, 1995, strengthens copyright protection, facilitates prosecution of copyright violators and makes copyright infringement a felony, punishable by fine and incarceration. The bill also protects computer software as a literary work. The next major challenge for Panama in the copyright is establishment and funding of the new Copyright Directorate called for in Law 15, the drafting and application of detailed implementing regulations, and the creation of the judicial expertise necessary to enforce the new law.

The Legislative Assembly's Commerce and Industries Committee during the legislative session ending June 30 had taken under consideration an industrial property law, modeled after the Mexican industrial property rights law. The Assembly, however, did not take final action on the bill before adjourning. The draft law would have established a standard of 20 years of protection for all patent holders, in place of the current range of 5 to 20 years for Panamanians and 5 to 15 years for foreigners. The bill also would protect processes. The draft law would impose 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 would be able to issue compulsory licenses only after notice to and a hearing for the patent holder. In addition, a patent holder would 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 would have the capacity to manufacture the product himself in Panama.

The draft industrial property law also provides for protection of trademarks and trade secrets. The bill would simplify trademark registration, and give protection for 10 years, renewable for an unlimited number of additional 10-year periods.

The newly elected Assembly, which was sworn in September 1, has not yet placed the bill on its agenda. The government will likely re-introduce the bill no later than 1995, since its passage is an important element of Panama's application to join GATT. It is possible there will be significant modifications made in the draft bill to strengthen its protections before the National Assembly takes final action.

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 have also complained about trademark infringement by firms in the CFZ and about use of the CFZ as a transshipment point for pirated products. GOP police authorities recently have raided several CFZ warehouses, in response to concerns about illegal transshipments and illegal assembly activity.

8. Worker Rights

a. *The Right of Association.*—Panamanian private sector workers have the legal right to form and join unions of their choice, subject to registration by the government. Unions have criticized, however, government requirements for registration, including the minimum number of workers necessary for union formation (currently 51). With a large percentage of small-scale shops and businesses in Panama having less than the required number of employees, many work forces fall below this number. The only option for such employees is to affiliate themselves with an existing trade union in another company, which is often difficult. Easier registration requirements are one demand that the unions have been making in Panama. Despite being legally allowed, attempts over the past twenty years to organize in the banking sector have not been recognized by the government. No organizing efforts also have been successful in the Colon Free Zone either. Unions claim that the government will never allow organizing efforts to succeed in these important economic sectors. Some economists, on the other hand, argue that these sectors have flourished in part precisely because the unions have been excluded.

The ILO's Committee of Experts (COE) has criticized the excessively high numbers of members required to establish a union along with the requirement that 75 percent of union members be Panamanian nationals, and the automatic removal from office of trade union officials dismissed from their jobs. The COE also has noted that Panama's Constitution and the Labor Code require that the executive board of a trade union be composed exclusively of Panamanians. The ILO feels that government legislation should be made more flexible to permit organizations to choose leaders without hindrance and should allow foreign workers to hold trade union office.

According to Ministry of Labor statistics, approximately 11 percent of the total employed labor force is organized. There are 289 active unions, grouped under six confederations and 48 federations representing approximately 82,000 members in the private sector. From January to August, two new unions registered with the Government. Some unions formerly affiliated with federations and confederations have chosen to function independently in recent years. Organized labor, which received various benefits from and was largely coopted by the military regime from 1968 to 1989, is no longer identified with nor controlled by the Government or political parties. Although the new Perez Balladares PRD government has closer ties with organized labor than did the Endara Administration, union organizations at every level may and do affiliate with international bodies.

Prior to the passage of Panama's new Civil Service Law (Ley Administrativa) or Law 9 of June 20, 1994, most government workers were not permitted to organize

unions or bargain collectively. The exception was workers in certain state-owned companies, such as public utilities, which have been allowed to organize unions—rights they carried over from when their companies were private sector entities—and these unions are among the strongest in Panama. FENASEP (the umbrella organization for the public employee associations) was especially active in the debate leading up to the passage in June of the Civil Service Law which established the basis for the creation of a career civil service for the first time in Panama, formalized the formation of public employee associations and federations and established their right to represent their members in collective bargaining with their respective agencies.

Most workers have the right to strike. Some key groups, however, do not (i.e., certain government workers in areas vital to public welfare and security such as the police and health workers and those employed by the U.S. Military Forces and the Panama Canal Commission). Unionized employees of formerly private and telephone companies, retain their original right to strike when certain criteria are met. For example, a notice of intention to strike must be served at least eight calendar days in advance and strikers must continue working in reduced shifts to prevent public services from being completely paralyzed.

b. *Right to Organize and Bargain Collectively.*—As noted above, the Panamanian labor code grants individuals the right to organize labor unions and employee associations. 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.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		724
Total Manufacturing		169
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Metals, Primary & Fabricated	([2])	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	21	
Wholesale Trade		578
Banking		([1])
Finance/Insurance/Real Estate		10,926
Services		([1])
Other Industries		([1])
TOTAL ALL INDUSTRIES		12,575

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

PARAGUAY

Key Economic Indicators

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1982 prices)[2]	7,113	7,407	7,681
Real GDP Growth (pct.)	1.8	4.1	3.6
GDP (at current prices)[2]	6,447	6,841	7,000
By Sector:			
Agriculture	26.3	26.6	26.1
Energy/Water	3.8	4.1	4.3
Manufacturing	15.6	15.3	15.1
Construction	5.4	5.3	5.8
Rents	N/A	N/A	N/A
Financial Services	26.5	26.5	26.8
Other Services	9.6	9.4	9.5
Government/Health/Education	4.8	4.8	4.9
Net Exports of Goods & Services[2] –821.3	–805.6	N/A	
Real Per Capita GDP (1982 base)	1,574	1,595	1,640
Labor Force (000s)	1,627	1,672	1,725
Unemployment Rate (pct.)	9.8	11.0	11.2
Money & Prices (annual percentage growth):			
Money Supply (M2)	35.1	27.2	19.8
Base Interest Rate[3]	36.3	39.6	39.4
Personal Saving Rate/GDP	18.3	19.5	18.9
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	13.9	14.8	14.2
Consumer Price Index	17.8	20.4	18.3
Exchange Rate (USD/Gs)	1,509	1,754	1,915
Balance of Payments and Trade:[2]			
Total Exports (FOB)[4]	656.5	725.2	715.5
Exports to U.S.	34.4	50.3	46.5
Total Imports (CIF)[4]	1,237.1	1,477.5	2,853.3
Imports from U.S.	414.9	520.9	580.5
Aid from U.S.	2.9	4.4	5.0
External Public Debt	1,249	1,217	1,265
Debt Service Payments (paid)	628.4	233.0	125.0

Key Economic Indicators—Continued

	1992	1993	1994
Gold and Foreign Exch. Reserves	610.7	697.7	983.6
Trade Balance[4]	−580.6	−752.3	−2,137.8
Trade Balance with U.S.	−380.5	−470.6	−534.0

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] In millions of U.S. dollars.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade. Exports exclude unregistered re-exports.

1. General Policy Framework

The Paraguayan economy continues to be dependent on agricultural exports and the re-export of goods to Brazil and Argentina. Because of this, it is particularly susceptible to external factors, such as bad weather or economic malaise in its neighboring countries. Since 1989, the government has liberalized and deregulated the economy, eliminating foreign exchange controls and implementing a free floating exchange rate. Paraguayan authorities have also established tax incentives to encourage and attract investment, reduced tariff levels, launched a stock market, reformed the tax structure, and started a process of financial reform. The Wasmosy government has continued these policies, and has taken important steps forward in joining the international economy through the ratification of GATT and acceptance of the Paris Conventions on intellectual property. It has also strengthened Paraguay's economic base by keeping government expenditures in line with revenues, combating inflation, eliminating restrictions on capital flows, reforming and deregulating the financial sector, keeping customs duties low and uniform, encouraging production and exports, privatizing state owned enterprises and condemning official corruption. The government provides national treatment to foreign investors and business people.

Paraguayan imports of U.S. made products have increased steadily. According to the U.S. Department of Commerce, exports to Paraguay totaled 520 million dollars in 1993. United States products and services enjoy wide acceptability among the Paraguayan public. Major sectors for U.S. exports include computers and peripherals, machinery, automobiles, auto parts, and consumer goods. Other areas for business are home entertainment equipment, communications equipment, and office machines and equipment. A healthy trade surplus is maintained with Paraguay.

Several large government investment projects could offer interesting opportunities for U.S. firms in the future. Paraguay and Argentina are considering a hydroelectric project at Corpus. The two governments plan to establish a concession to let private sector companies construct and manage the project. Another ambitious project will be the Hidrovia, a long-term river transportation project that aims to improve the navigation system of the River Plate region, including the Paraguay and Parana rivers. The project will be financed with funds provided by the Interamerican Development Bank. The Hidrovia Project will fund improvements in roads and ports, and may include some river dredging. A U.S. consulting firm is preparing a feasibility study for the recuperation of the Ypacarai lake basin and the bay of Asuncion funded by a Trade Development Agency grant. The final report will include recommendations for the installation of wastewater treatment plants and the construction of dikes to prevent flooding of land bordering the bay of Asuncion.

The scheduled privatization of four state companies including the national steel company, the state merchant fleet, the Paraguayan railroad, and an alcoholic beverage plant could also offer attractive investment opportunities to prospective U.S. investors. The government has also recently announced its intention to privatize the state telecommunications, and water and sewage companies, although the legislature has yet to approve these plans. Despite high-level support within the government, opposition from many parts of society long accustomed to a large public sector may stall privatization.

Paraguay is a member of the Latin American Association for Regional Integration, the Southern Cone Common Market (MERCOSUR) and the GATT. The Paraguay has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policies

All foreign exchange transactions, public and private, are settled at the daily free market rate. The value of the Guarani vis a vis the U.S. dollar and other foreign currencies is established by market forces, with some minor intervention by the

Central Bank. The free market rate on September 30 stood at 1,915 guaranies to the dollar. It is legal to hold savings accounts in foreign currency and in October 1994 the executive promulgated a decree legalizing contractual obligations in foreign currencies. At present the majority of savings accounts are denominated in dollars.

3. Structural Policies

Consumer prices are generally determined by supply and demand, except for public sector utility rates (water, electricity, telephone), petroleum products, pharmaceutical products, and bus fares. As a step to slow down inflation the government implemented in April 1994 a number of economic measures, including a stringent monetary policy, foreign exchange market interventions to prevent sharp fluctuations in the value of the guarani, a voluntary price freeze, and a tight rein on government expenditures that has generated a sizable budget surplus. Monthly inflation declined from slightly more than three percent in January to 0.3 percent in September, 1994.

The Ministry of Finance overseas all tax matters. With the implementation of the new tax system (Law 125/91), corporate incomes are subject to a 30 percent tax rate. As an incentive to investment, the income tax rate on reinvestment profits is 10 percent. The fiscal incentive package (Law 60/90) 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 government expanded the tax base with the implementation of a value added tax (IVA) in 1992. Compliance has been lower than expected, primarily as a result of inexperience in its administration.

4. Debt Management Policies

In 1992 the government reduced external debt with both official and commercial creditors. The full payment of arrears was accomplished without assistance from the IMF or the Paris Club by drawing down reserves. The Government of Paraguay currently has approximately 1.2 billion dollars of debt. About half of the debt is to multilateral lending institutions, with the rest to Paris Club members. Since 1992, Paraguay has been meeting its obligations with foreign creditors in a timely fashion.

5. Significant Barriers to U.S. Exports

U.S. manufactured goods face strong competition from Far East producers. U.S. companies have been kept out of government procurement through purchasing practices which grant a 15 percent preference to local bidders (bids are let on all purchases in excess of 60,000 U.S. dollars]. Paraguay prohibits the imports of certain foods and agricultural products. Although the list is reviewed every six months, it normally stays the same. The potential for U.S. computer software products is limited by widespread piracy.

In general, financing for both imports and exports is limited. High nominal and real interest rates due to inflation present a major obstacle to the availability of medium and long term credit. The banking system also enjoys a wide spread (over 20 percent) on its funds.

6. Export Subsidies Policies

There are no discriminatory or preferential export policies. Paraguay does not subsidize its exports. In fact, export taxes and duties represent a significant source of central government revenues.

7. Protection of U.S. Intellectual Property

Despite signing the Paris Conventions in early 1994 and a legal framework which affords protection to intellectual property, protection for intellectual property is lax in Paraguay. The lack of effective enforcement of existing IPR laws and the slow pace of the judicial system in issuing timely and clear decisions has encouraged the development of a sizable business of counterfeiting, particularly sound recordings and video movies. The U.S. Government has ongoing discussions with the Paraguayan Government on issues that must be addressed in order to establish an adequate intellectual property regime.

The outdated patent law of 1925 established an office of patents and inventions and the requirements and procedures for obtaining patents. The law does not meet modern standards. The law grants patents for 15 years and may be renewed.

The procedure for registering a trademark resembles the U.S. system. The illegal appropriation of well-known trademarks presents a serious problem. Anyone may register a trademark and the process is relatively simple and inexpensive. The law grants trademark rights which may be renewed before its expiration. Ownership of a trademark may be transferred by contract or inheritance.

In 1991, Paraguay became a signatory to the Bern Convention for the protection of literary and artistic works. Although the government has taken measures to fight piracy, widespread production and trade in pirated recordings, computer software, and video cassettes remains a problem.

8. Worker Rights

A Generalized System of Preferences (GSP) program was reinstated in February 1991. Paraguay's status as a beneficiary under the U.S. GSP was suspended in 1987 for violation of labor rights under the Stroessner regime. The restoration of trade benefits was in recognition of improvements in worker rights under the Rodriguez 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 parliament approved a new labor code that met international labor organization standards.

a. *Right of Association.*—The Constitution allows both private and public sector workers, excepting the armed forces and police, to form and join unions without government interference. It also protects the right to strike and bans binding arbitration. Strikers and leaders are protected by the constitution against retribution. Unions are free to maintain contact with regional and international labor organizations.

b. *Right to Organize and Bargain Collectively.*—Collective bargaining is protected by law. When wages are not set in free negotiations between unions and employers, they are made a condition of individual employment offered to employees. Collective contracts are still the exception rather than the norm in labor/management relations.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by law. Domestics, children, and foreign workers are not forced to remain in situations amounting to coerced or bonded labor.

d. *Minimum Age of Employment of Children.*—Minors from 15 to 18 years of age can be employed only with parental authorization and cannot be employed under dangerous or unhealthy conditions. Children between 12 and 15 years old may be employed only in family enterprises, apprenticeships, or in agriculture. The labor code prohibits work by children under 12, and all children are required to attend elementary school. In practice, however, many thousands of children, many under the age of 12, work in urban streets in informal employment.

e. *Acceptable Conditions of Work.*—The labor code allows for a standard legal work week of 48 hours, 42 hours for night work, with one day of rest. The law also provides for an annual bonus of one month's salary and a minimum of six vacation days a year. It also requires overtime payment for hours in excess of the standard. Conditions of safety, hygiene, and comfort are stipulated.

f. *Rights in Sectors with U.S. Investment.*—Conditions are generally 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		9
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		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	64

[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]

	1992	1993	1994 est
Income, Production, Employment:			
Real GDP (1985 prices)	19,946	21,318	23,637
Real GDP Growth (pct.)	−2.4	6.5	10.0
GDP (at current prices) [1]	25,587	28,047	31,800
By Sector:			
Agriculture	3,045	3,332	3,865
Fisheries	273	344	447
Mining/Petroleum	2,856	3,175	3,334
Manufacturing	5,696	6,257	7,195
Construction	1,716	2,002	2,500
Government	1,587	1,635	1,650
Others	10,413	11,302	12,809
Net Exports of Goods & Services	−2,144	−2,216	−2,500
Real Per Capita GDP (1985 USD)	888	930	1,011
Labor Force (000s)	8,184	8,400	8,500
Unemployment Rate (pct./year-end)	9.4	9.9	9.5
Money and Prices: (end of year)			
Money Supply (M2) [2]	1,435	1,530	2,084
Discount Rate (pct.) [3]	80.3	56.8	33.0
Consumer Prices (pct. change)	56.7	39.5	18.0
Wholesale Prices (pct. change)	50.5	34.1	15.0
Exchange Rate	1.63	2.16	2.25
Balance of Payments and Trade:			
Total Exports (FOB)	3,484	3,464	4,100
Exports to U.S.	739	750	760
Total Imports (FOB)	4,051	4,042	5,100
Imports from U.S.	1,002	900	1,050
Aid from U.S.	123	146	150
External Public Debt	21,409	22,157	22,400
Debt Service Paid [4]	725	886	900
Foreign Exchange Reserves	2,001	2,701	6,000
Merchandise Trade Balance	−566	−578	−1,000

[1] Because of recent hyperinflation, the current dollar value of Peru's GDP is a subject of debate. These figures represent official Central Bank estimates. They do not equate to nominal GDP in soles converted at the market exchange rate.
[2] Figures are for money supply in national currency only. The majority of financial system liquidity consists of dollars.
[3] Annualized rate of interest commercial banks charge each other on loans denominated in soles. The rates on dollar loans are significantly lower.
[4] Does not include lump-sum payments in 1993 connected with Paris Club rescheduling.
Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor and U.S. Embassy estimates.

1. General Policy Framework

Peru has taken dramatic steps to stabilize and liberalize its economy since the inauguration of President Alberto Fujimori in July 1990. Bureaucratic procedures

have been streamlined, price controls terminated, the tax system simplified, and labor laws made more flexible. Exchange controls have been lifted, and there are no restrictions on remittances of profits, dividends or royalties. By mid-1995, the government expects all remaining state-owned firms to have been privatized or liquidated.

Import licenses have been abolished for practically all products and non-tariff barriers eliminated. The average tariff rate has been cut to 16 percent, compared with 80 percent in 1990. The government plans to move to a flat 15-percent tariff in 1995. Currently, 98 percent of imports enter at the 15-percent rate, the rest at 25 percent. Peru maintains import surcharges on five basic agricultural products, which reduces the competitiveness of U.S. farm products. But these surcharges are scheduled to be phased out by 1997.

The economy is recovering from the deep recession and hyperinflation of the late 80s and early 90s, but it has yet to produce significant job growth. Real gdp growth could exceed 10 percent in 1994, and inflation is likely to fall below 20 percent (versus 39 percent in 1993 and 7,650 percent in 1990). In September 1994, consumer prices rose just 0.5 percent—the lowest monthly inflation rate in 19 years.

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. Dollars still account for more than 60 percent of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. The central bank does not finance the fiscal deficit. Current government expenditures have been in balance with revenues since late 1990, and the combined fiscal deficit (resulting fromdebt payment) has been financed by external sources. Over the last two years, a strorg inflow of foreign capital, primarily from privatizations, has more than offset the merchandise trade deficit, and net foreign reserves have grown to nearly USD 6 billion (they were negative when Fujimori took office).

Peru has ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995. President Fujimori faces re-election in April 1995. His principal opponent is former UN Secretary General Javier Perez de Cuellar, running as an independent.

2. Exchange Rate Policy

The exchange rate for the Peruvian New Sol is determined by market forces, with some intervention by the central bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition offoreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the central bank.

Since the end of 1992, the Sol has declined 27 percent against the dollar in nominal terms. However, when differences in inflation rates are taken into account, the Sol has appreciated in real terms.

3. Structural Policies

In the short span of four years, Peru has been converted from an economy dominated by a protectionist and interventionist state to a liberal economy dominated by the private sector and market forces. Several major state-owned businesses have been privatized in the past two years, including the phone company, the national airline (Aeroperu), electrical utilities and a number of mining properties. By the middle of 1995, the government intends to have sold off all remaining state-owned enterprises, including the petroleum company (Petroperu), the remaining electrical utilities, the water and sewage utilities, the fish-processing operations (Pescaperu), the ports (ENAPU), the airport authority (Corpac), tourist hotels and the remaining mining properties, including the largest, Centromin. There is some public sentiment against privatization, especially the privatization of Petroperu. But the government is determined to go ahead with its plans.

Price controls, subsidies and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the corrupt and inefficient tax authority (Sunat) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of gdp in 1990 to between 10 and 12 percent in late 1994. Customs collections in 1994 were running at a record pace, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies primarily on consumption taxes, including an 18 percent value-added tax. There are also surtaxes on certain big-ticket luxury items, such as automobiles. As a result, the total tax levied on an imported car, including VAT, luxury tax and 15-percent tariff, exceeds 40 percent.

Regulatory regimes have been streamlined in most sectors. For example, registration of a new company now takes about a month in most cases, compared with two years under the previous regime. There are exceptions for certain regulated industries, such as casinos, which require approval of the Gaming Commission. Under the new automatic registration process, companies may open for business if they do not receive a negative reply to their license applications within 60 days. The 1993 constitution guarantees national treatment for foreign investors. However, many U.S. investors continue to have problems because of Peru's unpredictable judicial system.

4. Debt Management Policies

Peru's public external debt at the end of June 1994 totaled USD 22.4 billion—roughly two-thirds of gdp. Total service payments on the debt in the first half of 1994 totaled USD 460 million, or 23 percent of merchandise exports.

Peru cleared its arrears with the Interamerican Development Bank in September 1991. In March 1993 it cleared its USD 1.8 billion in arrears to the IMF and World Bank and negotiated an extended fund facility with the IMF for 1993–95. The Paris Club rescheduled almost USD 6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993 to March 1996 from USD 1.1 billion to about USD 400 million.

In September 1994, the Peruvian congress voted to recognize the government's obligation to repay the debt to Chemical Bank and American Express dating to 1983 for the lease of two ships—the Mantaro and the Pachitea. The settlement of this longstanding dispute paves the way for Peru to renegotiate its debt with the foreign commercial banks—estimated at between USD 6 billion and USD 9 billion, including arrears and penalties. Peru hopes to negotiate a Brady Plan agreement with the commercial banks that will significantly lower its debt-service obligations. Preliminary discussions with the banks were underway in October 1994. The government is also accepting cancelled debt as partial payment in selected privatizations. In October 1994, Peruvian debt was trading at about 60 percent of face value.

5. Significant Barriers to U.S. Exports

Almost all barriers to U.S. exports and direct investment have been eliminated over the past four years. There are no quantitative or qualitative ceilings on imports. The investment law is extremely liberal. Customs procedures have been simplified and the customs administration made more efficient.

Import licenses have been abolished for the vast majority of products. The only remaining products requiring licenses are firearms, munitions and explosives; chemical precursors (used in cocaine production); and ammonium nitrate fertilizer, which has been used as a blast enhancer for terrorist car bombs.

Import surcharges imposed in May 1991 remain in effect on 18 categories of agricultural products, covering five basic commodities: wheat, rice, corn, sugar and milk products. The surcharges on wheat (including wheat flour), rice (milled and paddy), corn and sugar are variable import levies, based on price bands determined weekly by the Ministry of Agriculture, tied to world market prices. Whole and skimmed milk powder and milk fat are subject to per-ton surcharges. The Peruvian government defends the surcharges as necessary to protect Peruvian farmers from subsidized international competition and cushion the effect of an overvalued Sol and structural adjustment. In March 1993, the government agreed to phase out the surcharges over a three-year period as a condition for disbursement of an Interamerican Development Bank trade-sector loan. The surcharge levels were reduced by about 5 percent in April 1994 and by an equal amount in October 1994. Further cuts are scheduled to take place in January and July 1995, and every six months thereafter until the surcharges are eliminated. At present, however, it is difficult for U.S. grain exporters to effectively compete in the Peruvian market.

6. Export Subsidies Policies

The Peruvian government provides no export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters of non-traditional and mining products can apply certain sales and consumption taxes paid on inputs as a credit against income and asset taxes. Exporters also can receive rebates of the value-added tax on their inputs.

7. Protection of U.S. Intellectual Property

Intellectual property protection in Peru has improved in recent years but still falls short of international standards. Enforcement mechanisms are in the early stages of development and are still unproven for the most part. Peru remains on the Special 301 Watch List.

Peru is a signatory to the Berne Convention for the Protection of Literary and Artistic Works and to the Universal Copyright Convention and is a member of the World Intellectual Property Organization. In October 1994, the Peruvian congress ratified the Paris Convention on Industrial Property. The government plans to implement the GATT TRIPs provisions once the Peruvian congress ratifies the Uruguay Round agreement.

As of January 1, 1994, Peruvian law provides patent protection for all classes of inventions, without exception. This exceeds the protection provided under Andean Pact Decision 344. Peru does not provide transitional (pipeline) protection. Decision 344, which went into effect on January 1, 1994, lengthened the patent protection period to a straight 20 years (compared with the 15-plus-5 regime under the old law). It permits member countries to improve patent and trademark protections beyond those provided by the pact. Decision 344 contains compulsory licensing provisions, but these provisions are unlikely to be used in Peru because of the numerous requirements that must first be fulfilled.

Counterfeiting of trademarks is prevalent, because there is only rare, disjointed regulatory enforcement. At times the local courts have failed to back enforcement efforts in clear-cut cases. Some U.S. companies have spent years in fruitless litigation attempting to secure protection for their trademarks in Peru.

Copyrights are widely disregarded, but enforcement is improving, particularly with regard to software, videos, and musical recordings. Textbooks and books on technical subjects are rampantly copied, and illegal copies of audio cassettes are widely available. Pirated copies of motion picture videos constitute the inventories of nearly all video rental outlets. As soon as a film is in general release in Lima, its bootleg appears in local video stores. Although computer software is now protected by Peruvian copyright law, pirated software is widely available. Recently, however, authorities have raided large-scale software users, such as computer schools and economic consulting firms, to check for pirated software, and pirated software has been destroyed in well-publicized public burnings.

Peruvian law does not protect semiconductor chip layout designs, but the Embassy is not aware of any infringement of integrated circuits or semiconductor chips. Private freebooting of broadcast satellite signals may exist, but the commercialization of the captured signals without a license appears to have ended.

8. Worker Rights

Articles 28 and 42 of the Peruvian constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 8 million, only about 7 percent belong to unions. Roughly two-thirds are employed in the informal sector, beyond government regulation and supervision. Strike activity increased in 1994 as the economy picked up and workers demanded better pay and conditions. The beginning of the campaign for the 1995 presidential election also inspired labor actions.

a. *Right of Association.*—Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are not eligible for union membership. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. Although some unions have been traditionally associated with political groups, unions are prohibited by law from engaging in explicitly political, religious or profit-making activities.

b. *Collective Bargaining.*—Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Productivity provisions must be included in any collective bargaining agreement. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. The government has set up a system of conciliation and arbitration to resolve disputes in collective-bargaining impasses. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by force majeur or economic conditions, with 15 days notice to employees.

c. *Forced or Compulsory Labor.*—Forced or compulsory labor is prohibitted, as is imprisonment for debt. There are periodic reports of forced labor in remote mountainous and jungle areas, which the government claims it cannot control.

d. *Minimum Age of Employment.—The minimum legal age for employment is 16. Workers aged 16–21 may not exceed 15 percent of a company's workforce. However,*

although education through the primary level is free and compulsory, many school-aged children must work to support their families, usually in the informal economy without government supervision of wages or conditions.

e. *Acceptable Conditions of Work.*—The 1993 constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. The labor code also sets a 45-hour work week for women. Workers are promised a just and sufficient wage (to be determined by the government in consultation with labor and business representatives) and adequate protection against arbitrary dismissal. No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed in exchange for regular employment, especially in the informal sector. The current minimum wage is 130 Soles per month (about USD 57 at the current exchange rate).

f. *Rights in Sectors With U.S. Investment.*—U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors. Labor conditions in those sectors compare favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum. Oil and mining workers called a number of strikes in 1994 to demand higher pay and to protest government privatization plans.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		20
Food & Kindred Products	5	
Chemicals and Allied Products	−4	
Metals, Primary & Fabricated	9	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
Transportation Equipment	0	
Other Manufacturing	9	
Wholesale Trade		51
Banking		(1)
Finance/Insurance/Real Estate		0
Services		8
Other Industries		(1)
TOTAL ALL INDUSTRIES		631

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	3,827.6	3,770.2	3,883.3
Real GDP Growth (pct.)	−0.6	−1.5	3.0
GDP (at current prices)[2]	4,846.2	4,161.4	4,745.8
By Sector:			
Agriculture	132.66	108.37	102.68
Energy/Water	1,227.79	1,122.26	1,138.53
Manufacturing	484.14	389.65	386.34
Construction	450.71	344.58	344.92
Transport	1,446.73	1,288.33	1,334.10
Rents	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Financial Services	472.38	393.93	408.31
Other Services	369.88	310.63	304.39
Government/Health/Education	620.33	510.45	513.26
Net Exports of Goods & Services	138.60	39.10	500.00
Real Per Capita GDP	3,189.7	3,141.8	3,236.1
Labor Force (000s)	505.2	504.6	508.4
Unemployment Rate (pct.)	19.6	19.8	18.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	−6.6	5.1	−1.8
Base Interest Rate [3]	15.50	15.50	15.50
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	6.5	10.8	9.0
Wholesale Inflation	0.8	5.3	3.0
Consumer Price Index	247.0	273.6	295.3
Exchange Rate (USD/TT)	4.25	5.39	5.83
Balance of Payments and Trade:			
Total Exports (FOB) [4]	1,868.9	1,632.8	1,933.9
Exports to U.S.	879.0	735.0	874.1
Total Imports (CIF) [4]	1,435.6	1,390.6	996.9
Imports from U.S.	594.4	540.9	470.5
Aid from U.S.	0.60	0.15	0.70
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	2,214.7	2,095.8	2,000.0
Debt Service Payments	612.1	613.5	594.0
Gold and Foreign Exch. Reserves	40.2	207.4	117.6
Trade Balance [4]	433.3	242.2	512.6
Balance with U.S.	284.6	194.1	253.8

N/A-Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost. Figures reflect the exchange rates applicable in each year. 1992 exchange rate: US$1.00/TT$4.25. Exchange rate for 1993 is a period average which includes the post-float devaluation: US$1.00/TT$5.39. Exchange rate for 1994 is an average of the period January–September 1994: US$1.00/TT$5.83. Sector indicators: Financial Services includes finance, insurance and real estate; Transport includes transport, storage and communication, and distribution.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade.

1. General Policy Framework

The dual-island 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 became a 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 1980's and concurrent decrease in Trinidadian oil production, caused a severe recession from which Trinidad and Tobago is only now beginning to emerge. Prospects for continued economic growth, however, remain closely tied to oil prices and oil and gas production in the short term as the government's structural reforms require time to stimulate growth.

Since January 1992, the Government of Trinidad and Tobago has moved decisively to lay the foundations for private-sector based, export-led growth and to reform its state-controlled economy to a market-controlled one. On April 13, 1993, the government removed currency controls, floating the TT dollar. In 1992, it undertook a large scale divestment program and has since divested several previously state-owned companies. In addition, the government began dismantling trade barriers in 1991 eliminating the import licensing requirement for most manufactured goods in July 1992, and for most agricultural goods in September 1994.

The Government of Trinidad and Tobago has aggressively courted foreign investors and on September 26, 1994, signed a Bilateral Investment Treaty with the United States, which provides national treatment for U.S. investors. New U.S. in-

vestment in Trinidad and Tobago increased from US$428 million in 1993 to about US$660 million in 1994.

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 and 1994 have boosted VAT, income-tax and customs duty revenues dramatically. Nevertheless, a public sector budget deficit of approximately US$52 million is projected for 1994 because of lower-than-projected oil prices resulting in less revenue from the energy sector. The 1994 budget based oil revenues on a price of US$19/barrel, but prices hit a five-year low in February and have not sufficiently recovered to budget-projected levels.

To protect the exchange rate, which has several times neared the TT$6.00–US$1.00 rate, the Central Bank has attempted to manage liquidity by keeping aggregate demand consistant with balances. The Central Bank continues to rely primarily on reserve requirements to control the money supply, despite its stated goal of moving to open market operations as a more market-oriented means of influencing the money supply. The Central Bank has raised the reserve requirement for commercial banks twice in 1994, to a current 20 percent. The tight money supply, combined with a weakening of the inflationary effects of the 1993 float, are keeping inflation low. The year-on-year rate of inflation was 7.8 percent from June 1993 to June 1994 compared with 11.2 percent in the twelve months preceding June 1993.

2. Exchange Rate Policy

On 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 at the rate of TT$4.25 equals US$1.00 since 1988. The average rate of exchange for the first three quarters of 1994 is TT$5.83 equals US$1.00. Foreign currency for imports, profit remittances, and repatriation of capital is freely available. Only a few reporting requirements have been retained to deter money laundering and tax evasion.

3. Structural Policies

Pricing Policies: Generally, the free market determines prices. The government maintains domestic price controls on sugar, schoolbooks, and pharmaceuticals. Controls on rice and counter flour were lifted in September 1994 and remaining controls are expected eventually to be eliminated entirely.

Tax Policies: In an effort to curb consumption, the government instituted a 15 percent VAT on January 1, 1990. Corporate tax rates were raised by five percentage points to 45 percent in 1992, but a revision in the 1993 budget allows incremental profits of a company over a given base year to be taxed at 30 percent. 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 to 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. Additional taxes in the 1994 budget hit motorists with a five percent gasoline tax for road improvements, a new used-car transfer tax and an increase in the motor-vehicle tax applied to new purchases.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals and plants, a large percentage of which come from the United States, are subject to specific regulations. The import of firearms, ammunition and narcotics are rigidly controlled or prohibited.

4. Debt Management Policies

From 1988 to 1991, the government negotiated International Monetary Fund (IMF) standby agreements, rescheduled Paris Club debt and concluded an agreement for a World Bank structural-adjustment loan. From 1992 to 1994 Trinidad and Tobago's high debt-service payments averaged about US$600 million per annum. The government has met these payments by relying on bond issues, proceeds from the divestiture of state enterprises and the offset effects of substantial loans from the Inter-American Development Bank. The country should emerge in 1995 with a manageable debt burden of approximately US$450 million per annum, and, as of 1996, a debt-service ratio of 15.1 percent down from 27.7 percent in 1994.

Total foreign debt now stands at approximately US$2 billion, or 42 percent of GDP, down from a high of 59 percent in 1989. With the government meeting its debt payments, the elimination of trade barriers and the economy edging toward growth, prospects for increased trade with the United States in the years ahead are excellent.

5. Significant Barriers to U.S. Exports

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. Only sugar, poultry parts, left-hand drive vehicles, small boats and firearms remain on the "Negative List" of products requiring import licenses. Current import surcharges and stamp duties required on most manufactured goods will be reduced to zero on January 1, 1995, although Caricom Common External Tariff (CET) rates will continue to apply. Surcharges on agricultural goods removed from the negative list in September 1994, will be phased to zero on January 1, 1998.

Liberalizing agricultural trade will eventually open the market for more U.S. commodity exports into Trinidad and Tobago, raising concerns among local farmers that the domestic agricultural sector will suffer from the cheaper foreign products making farming unprofitable. However, the government firmly expects the introduction of competition to result in a more efficient agricultural sector.

The removal of import-licensing requirements has also forced local manufacturers, traditionally accustomed to producing only for a protected domestic market, to look outward and become more efficient. The government actively encourages export industries and small business development as a means of employment generation. In 1994, government officials championed the role of the private sector in the generation of economic growth. The government now views its role to be more a facilitator than an engine of growth.

Trinidad and Tobago's exports remain 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 float and resultant depreciation of the TT dollar has made local manufactured and agricultural exports more competitive and imported goods more costly for local consumers. As a result, Trinidad and Tobago's overall trade balance has improved. During the first quarter of 1994, Trinidad and Tobago's merchandise trade surplus was US$256.3 million compared with a US$4.5 million deficit in the first quarter of 1993 before the currency was floated. 1994's first quarter surplus was Trinidad and Tobago's fourth consecutive quarterly surplus.

Trinidad and Tobago signed the Uruguay Round Agreement on April 15, 1994 in Marrakech, Morocco.

Foreign ownership of service companies is permitted. Trinidad and Tobago currently has one 100 percent U.S.-owned bank, several U.S.-owned air-courier services, and one U.S. majority-owned insurance company. The government has expressed interest in attracting another U.S. bank.

Standards, labelling, testing and certification, to the extent that they are required, do not hinder U.S. exports. The Trinidad and Tobago Bureau of Standards (TTBS) is responsible for all trade standards except those pertaining to food, drugs and cosmetic items, which the Chemistry, Food and Drug Division of the Ministry of Health monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET. Trinidad and Tobago is not a party to the GATT Standards Code.

Foreign direct investment is actively encouraged by the government. Generally speaking there are no de facto restrictions on investment and the government is actively removing all disincentives to investment. On September 26, 1994 the Government of Trinidad and Tobago signed a Bilateral Investment Treaty with the U.S., granting national treatment to U.S. investors in Trinidad and Tobago on a reciprocal basis. Foreign investment is screened only for eligibility for government incentives, and assessment of its environmental impact. Foreign investors are eligible for tax concessions in the form of tax holidays and concessions in the manufacturing and hotel industries. Both tax and nontax incentives may be negotiated with the government for investments in the manufacturing, tourism, and energy sectors. The repatriation of capital dividends, interest, and other distributions and gains on investment may be freely transacted.

Government procurement practices are generally open and fair, and the government and government-owned companies generally adhere to an open bidding process for procurement of products and services. However, some government entities request prequalification applications from firms, then notify prequalified companies in a selective tender invitation. Trinidad and Tobago is not a member of the GATT Government Procurement Code.

Customs clearance can consume much time because of bureaucratic inefficiency and administrative procedures can be burdensome. Local importers often complain that it takes several working days to get import documents approved and their goods released. In October 1993, the Government of Trinidad and Tobago engaged three full-time U.S. Customs Service consultants for two years to improve efficiency and revenue collection. The Trinidad and Tobago Customs Service has implemented

several consultant recommendations. Computerization of the Trinidad and Tobago Customs Service import clearance process is under consideration but no date is set for implementation.

6. Export Subsidies Policies

There is no evidence of directly subsidized exports to the United States. However, the government offers incentives to manufacturers operating in a Free Zone or Export Processing Zone (EPZ) to encourage foreign and domestic investors. Such manufacturers are exempt from customs duties on capital goods, spare parts and raw materials imported to construct and equip their premises. They are also exempt from all corporation and withholding taxes on profits from manufacturing and international trading in products or export services.

On January 1, 1993, the government implemented the five percent CET on all factors of production. 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. Trinidad and Tobago is not a member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Few resources are currently devoted to intellectual property rights, a situation that is expected to change during the two-year phase-in period for compliance with provisions in the Intellectual Property Rights (IPR) agreement, signed with the United States September 26, 1994. The agreement will, in most instances, provide IPR protection equivalent to that in the U.S., and is part of the Trinidad and Tobago government's drive to attract more U.S. investment to Trinidad and Tobago. Failure in law to provide for minimum statutory damages, recovery of legal costs, and criminal penalities 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.

Current copyright protection is governed by the Copyright Act of 1985, which complies with the revised Bern and Universal copyright conventions. A copyright is valid for a period of fifty years. Although the Act provides for protection of literary, musical and artistic works, computer software, sound recordings, audio-visual works and broadcasts, it is not enforced. Video rental outlets in Trinidad and Tobago are replete with pirated videos and operate openly.

The existing law on patent protection is the Patents and Design Act, which establishes a registration system with no form of examination of patentable subject matter, novelty, inventive step, or industrial applicability. Patents are currently valid for a period of 14 years and may be extended before expiry for any period not exceeding seven years without limit. Infringement of patents is not a discernible problem in Trinidad and Tobago, but the existing law is outdated. A new patent law to provide for new technologies is being drafted.

Trademarks can currently be registered for a period of 14 years, and renewed by application before the expiration of the registration for an unlimited number of 14 year periods. The current Trademark Act is also slated for review. Counterfeiting of trademarks is not a widespread problem in Trinidad and Tobago.

New Technologies: Larger firms in Trinidad and Tobago are scrupulous about obtaining legal computer software while many smaller firms are believed to use wholly or partially pirated software. Licensed cable companies are faced with unlicensed cable operators and satellite owners who connect neighborhoods onto private satellites for a fee. Even licensed cable companies are not exempt from piracy since they regularly provide customers with U.S. "premium" cable channels for which they have not obtained rights.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, U.S. copyright holders are the most heavily affected by the lack of copyright enforcement in Trinidad and Tobago, although the market is relatively small. By signing the IPR agreement, the government has acknowledged IPR infringement is a deterrent to additional U.S. investment in Trinidad and Tobago and is committed to improving both legislation and enforcement.

8. Worker Rights

a. *The Right of Association.*—The right of association is respected in law and practice. Approximately 26 labor unions were active in Trinidad and Tobago in 1994. The unions are independent of government or political party control and freely represent their members' interests. There are no excessive or arbitrary registration requirements, nor restrictions on selections of union officers or advisors. Union members are free to choose representatives, publicize their views and determine their own programs and policies. All employees except those in "essential services" have the right to strike.

b. *The Right to Organize and Bargain Collectively.*—The rights of workers to collective bargaining is established in the Industrial Relations Act of 1972. Anti-union discrimination is prohibited by law.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not explicitly prohibited by law and is not a problem in EPZs since the same labor laws applied in the country at large are also applied in in EPZs. Some prison inmates sentenced to hard labor are involved in subsistance agriculture and dairy farming and fishing.

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. General employment is permitted after 14 years.

e. *Acceptable Conditions of Work.*—A minimum wage structure is in place for gas station employees, domestic assistants, retail-sales personnel and hotel workers. These wage rates are adjusted for cost of living increases at regular intervals, every few years. In 1994, the parliament considered legislation which would set a minimum wage for security guards. There is no national or general minimum wage. The standard work week in Trinidad and Tobago is forty hours with no cap on overtime. The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries; state inspectors monitor conditions in work places and workers who refuse to perform work because of hazardous conditions are protected from retribution under the Industrial Relations Act of 1972.

f. *Rights in Sectors with U.S. Investment.*—Employee rights and labor laws in sectors with U.S. investment do not differ from those in other sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		469
Total Manufacturing		(1)
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	4	
Wholesale Trade		0
Banking		5
Finance/Insurance/Real Estate		(1)
Services		1
Other Industries		3
TOTAL ALL INDUSTRIES		693

[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 U.S. dollars unless otherwise noted][5]

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1983 prices)[2]	6,802	6,903	7,042
Real GDP Growth (pct)	7.7	1.5	2.0
GDP (at current prices)[2]	11,676.8	13,144.9	15,034.5
By Sector:			
Agriculture	1.164.9	1.159.4	1,341.2
Energy/Water	283.6	336.3	374.7
Manufacturing	2,687.9	2,471.3	2,761.3
Construction	566.6	748.4	887.6
Rents	1,667.6	2,194.4	2,544.4
Financial Services	1,153.0	1,267.5	1,459.6
Other Services	3,056.2	3.525.6	4,008.9
Government/Health/Education	1,097.0	1,442.0	1,656.8
Net Exports of Goods & Services	99.0	-155.4	-161.7
Real Per Capita GDP (1983 prices/USD)	2,172,8	2,192.3	2,223.4
Labor Force (000s)	1,382	1,395	1,409
Unemployment Rate (pct.)	9.0	8.3	9.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	50.9	49.7	45.3
Base Interest Rate[3]	50.1	42.7	45.6
Personal Saving Rate[3]	24.5	17.2	20.1
Retail Inflation	58.9	52.9	41.0
Wholesale Inflation	46.9	31.1	35.0
Consumer Price Index	58.9	52.9	41.0
Exchange Rate (USD/New peso)			
Interbank Floating Selling Rate	39.9	26.9	34.3
Balance of Payments and Trade:			
Total Exports (FOB)[4]	1,702.5	1,645.3	1,780.0
Exports to U.S.	177.8	148.8	160.0
Total Imports (CIF)[4]	2,045.1	2,324.4	2,460.0
Imports from U.S.	203.2	222.6	245.0
Aid from U.S.	1.2	1.2	1.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	4,136	4,291	4,430
Debt Service Payments (paid)	620	645	665
Gold and FOREX Reserves (net)	946.8	1,201.8	1,290.0
Trade Balance[4]	-342.6	-679.1	-680.0
Trade Balance with U.S.	-25.4	-73.8	-85.0

N/A—Not available.
[1] 1994 figures are all estimates based on available monthly data in October 1994.
[2] GDP at producer price.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade.
[5] Data in Uruguayan pesos was converted into U.S. dollars at the average interbank selling exchange rate for each year.

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, which diversified beyond agro-industry into chemicals and consumer goods for local consumption, has declined in the face of greater competition, and now accounts for 21 percent of GDP. Services, particularly tourism and financial services, now dominate the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

The Government has been relatively successful in reducing its fiscal deficit from 7.4 percent in 1989 to 1.6 percent in 1993. Principal sources of the deficit are losses

by the Central Bank on nonperforming loans purchased from private banks, foreign debt payments and transfers to the social security system. Inflation peaked at 129 percent in 1990, and is expected to fall to 41 percent in 1994.

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.

On April 1994 the IMF approved the Uruguayan government economic program for 1994 which will be subject to the IMF staff monitoring procedure. Uruguay has ratified the Uruguay Round trade agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

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. Up to mid August 1994, the Central Bank regularly bought dollars to keep the peso value from rising above the band. For a period thereafter, the value of the dollar was floating close to the top of the band pushed by high liquidity and expectation of formal devaluation. By the end of October, the speculative burst ended and the Central Bank was again buying dollars. The lag between devaluation and inflation decreased from about 21 percentage points in 1993 to 16 percentage points for the twelve-month period ended October 1994 continuing to make Uruguayan exports less competitive and imports more attractive.

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 1994, its total external debt was $7.8 billion, almost $300 million over the amount in March 1993. Of this amount, $4.4 billion was public sector debt and $3.4 billion represented debts of the private sector. The public sector external debt included 1.6 billion of dollar-denominated Uruguayan government bills and bonds, $269 million of foreign currency deposits of nonresidents, $2 billion of long term loans of the nonfinancial public sector and $158 million of suppliers credits. The balance, amounting to $373 million, represents liabilities reserves and other credits of the Government of Uruguay financial sector. International reserves of the public sector banking system amounted to $2.5 billion, resulting in a net public sector foreign debt of $1.9 billion.

The $3.4 billion of the private sector foreign debt were primarily made up of $2 billion of foreign currency deposits by nonresidents and $359 million of supplier credits. The balance amounting to $1 billion represented liability reserves of the private banks. International reserves of the private sector banks amounted to $3 billion resulting in a net private sector foreign debt of $452 million.

The debt service in 1992 was $750 million, equivalent to 45.6 percent of total merchandise exports, 26.7 percent of combined merchandise and service exports and 5.7 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 law allowing foreign companies to offer insurance coverage in Uruguay was passed in October, 1993.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment 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. Passage of port reform legislation in April 1992 allowed for privatization of various port services. Recently approved legislation also allows for the private generation of electric power and the privatization of the state-owned gas company. Cellular telecommunications are operated by both private consortiums and the state-owned phone company. Privatization of the telephone company was rejected in a referendum in 1992.

Government procurement practices are well-defined, transparent and closely followed. Tenders are generally open to all bidders, foreign or domestic. In the past year, however, several important government bids appeared to have been awarded to non U.S. companies based on other than objective criteria such as price and quality. A Government decree also establishes that in conditions of equal quality or adequacy to the function, domestic products will have preference over foreign ones. Among foreign bidders, preference will be given to those who offer to purchase Uruguayan products. The Government favors local bidders even if their price is up to 10 percent higher. 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. Imports from MERCOSUR member countries (Brazil, Argentina, and Paraguay) enjoy significantly lower rates and will become 0 percent on most products as of January 1, 1995. 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. Minimum export prices are scheduled to be phased out in 1995.

6. Export Subsidies Policies

The Government has provided a 9 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 May 1, 1995. 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 3 years of registration in country of origin. Confirmed patents are protected for 10 years, less the period of protection already enjoyed in the country of origin. Compulsory licensing is not 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 10 years initially, renewable indefinitely.

Uruguay affords copyright protection to, inter alia, books, records, videos, and software. Despite the legal protection, enforcement of copyright protection for software is still weak and pirating of software is substantial. Software suppliers have 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.

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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		8
Total Manufacturing		73
Food & Kindred Products	(1)	
Chemicals and Allied Products	−1	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		111
Banking		(1)
Finance/Insurance/Real Estate		25
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		316

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

VENEZUELA

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	72,999	72,297	68,393
Real GDP Growth (pct.)	6.8	−1.0	−5.4
GDP (at current prices)[2]	60,414	58,973	57,158
By Sector:			
Agriculture	3,223	3,146	2,857
Energy/Water	11,969	11,684	11,800
Manufacturing	8,786	8,576	7,916
Construction	3,939	3,845	3,480
Rents	3,807	3,716	3,456
Financial Services	1,540	1,503	1,398
Other Services	23,203	22,650	22,668
Government/Health/Education	3,947	3,853	3,583
Net Exports of Goods & Services	−1,169	273	1,522
Real Per Capita GDP (1985 base)	3,587	3,473	3,212
Labor Force (000s)	7,538	7,546	7,622
Unemployment Rate (pct.)	7.1	6.3	12.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	18.4	25.7	62.7
Base Interest Rate[3]	42.1	61.5	56.5
Personal Saving Rate[3]	11.9	8.5	6.1
Retail Inflation	31.9	45.9	75.0
Wholesale Inflation	26.0	47.3	109.0
Consumer Price Index (1984=100)	1,071.6	1,563.5	2,736.1
Exchange Rate (USD/Bs)[4]			
Official	68.40	91.15	153.4
Parallel	68.40	91.15	161.9
Balance of Payments and Trade:			
Total Exports (FOB)[5]	13,955	14,222	15,100
Exports to U.S. (CV)	7,564	7,782	8,000
Total Imports (FOB)[5]	12,266	11,013	7,400
Imports from U.S. (FAS)	5,178	4,395	3,800
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	27,083	27,297	26,700
Debt Service Payments (paid)	2,695	2,989	3,200
Gold and Foreign Exch. Reserves	13,001	12,656	11,000
Trade Balance[5]	1,689	3,209	7,700
Trade Balance with U.S.	2,386	3,387	4,200

N/A—Not available.
[1] U.S. Embassy estimates based on information available in October 1994.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not rates of change.
[4] Annual averages. Venezuela adopted a fixed single exchange rate of 170 bolivars to the dollar on July 11, 1994. A parallel exchange market is currently illegal.
[5] Merchandise trade.

1. *General Policy Framework*

Venezuela's long-term potential as a market for U.S. business remains positive, although 1995 will be difficult. The country has a moderately well-established economic infrastructure and an impressive potential for economic growth in petroleum, natural gas, hydroelectric power, iron ore, coal, bauxite, and gold. Venezuela is a major oil producer/exporter and a founding member of OPEC. The petroleum sector dominates the economy, but the government is encouraging the development of nontraditional basic export industries, such as petrochemicals, aluminum, steel, cement, forestry, manufactured consumer products, and mining.

The bulk of accumulated foreign investment in Venezuela is from the United States. The United States remains Venezuela's chief trading partner, absorbing 55 percent of its exports and supplying 51 percent of its imports in 1993. In December 1994 ratified the G-3 Free Trade Agreement between Venezuela, Colombia and Mexico. Venezuela has also ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

After three years of solid economic growth, Venezuela's economy went into recession in 1993 with real GDP falling by 1 percent. This contributed to a major financial sector collapse in early 1994, followed by an even more severe contraction of the economy. GDP is expected to drop by more than 5 percent in 1994.

The government recorded a fiscal deficit of about 3.6 percent of GDP for the consolidated public sector in 1993. Tax revenues from the petroleum sector as a share of GDP have declined substantially in recent years as international petroleum prices in real terms have fallen and non-oil revenues have increased. As a result, oil revenues are expected to provide less than 50 percent of total revenues in 1994. As a result of the federal government bailout of the banking sector, the government's fiscal deficit could climb to 15 percent for 1994.

Financing of the deficit has been accomplished primarily through the issuance of treasury bills ranging in maturity up to two years, but heavily weighted toward the short-term. Substantial financial support to the commercial banking sector in 1994 has principally been supplied through borrowing from the Central Bank. The government has forecast a modest rebound in output and a budget surplus for 1995. Economic and fiscal performance will depend on several factors, including ongoing application of price and exchange controls, continuing problems in the financial sector, proceeds from the privatization process, and international petroleum prices.

The Central Bank operated a tight monetary supply in 1993. In real terms, M2 lost 18.84 percent. However, in 1994 government assistance to the financial sector overwhelmed attempts to restrict liquidity. From the end of 1993 through August 1994, although M2 decreased 8 percent in real terms, it expanded by 33 percent in nominal terms. During 1993 and 1994, the government has relied primarily on 91- and 181-day zero coupon bonds to soak up excess liquidity. Inflation has been on the rise the last several years, climbing from 32 percent in 1992 to 46 percent in 1993. Prices for items in the CPI basket increased by about 50 percent for the first eight months of 1994. For the year, inflation is expected to reach 60 percent.

The Caracas Stock Exchange has fluctuated in recent years. The broad market index decreased 32 percent in 1992, but climbed 10 points in 1993. Foreign investment in the stock market dropped in 1994 with the imposition of exchange controls in July, but the market index hit a new high in September 1994, bid up by local investors without dollar instrument investment alternatives.

2. Exchange Rate Policy

From November 1992 to April 1994, Venezuela's Central Bank implemented a crawling peg exchange rate regime of daily minidevaluations. In May, an auction system was introduced to stem capital flight prompted by a lack of confidence in the economy following a massive bailout of troubled banks and resignation of the Central Bank President. Central Bank reserves, which stood at $12.7 billion at the end of 1993, dropped to $9.0 billion by the end of June 1994. On July 11, 1994 a fixed exchange rate system was established with a single rate of 170 bolivars to the dollar, compared to an exchange rate of 115 at the beginning of April.

In addition to a fixed exchange rate, access to foreign currency is strictly controlled under the new regime. All requests for foreign currency must be submitted to the Technical Exchange Management Office (OTAC). An Exchange Control Board sets general policy. Importers, exporters, private debt holders, and foreign investors must register with OTAC prior to submitting an application for currency. Procedures under the new exchange control regime are still evolving. Currency transactions conducted outside the official system are illegal and legislation is pending that would impose heavy penalties for violations. The Venezuelan government has characterized the new controls as temporary, but after six months of controls has not yet set a date for their elimination.

3. Structural Policies

In 1994, the Venezuelan government adopted a mix of heterodox measures to respond to the economic recession and collapse of the financial sector. The government suspended constitutional economic guarantees, using this mechanism as the basic framework to implement foreign exchange and price controls on a variety of goods (primarily essential goods such as foods) and services (parking, funeral services, laundry and drycleaning, and cinemas). The stringent government regulations for obtaining foreign exchange have disrupted lines of credit for the private and public

sector. No progress has been made on raising the domestic price of gasoline, which is below the marginal cost of production; on reforming the severence pay system; or in trimming public sector participation in the economy through privatization of state enterprises.

A major income tax reform designed to improve government tax collection and increase revenues in the nonpetroleum sector was implemented in mid-1994. The maximum rate for individuals and corporations increased from 30 to 34 percent. Venezuelan tax law does not differentiate between foreign-owned and Venezuelan-owned companies, with the exception of the petroleum sector. Hydrocarbon revenues of the state petroleum company, PDVSA, are subject to a tax rate of 67.7 percent. However, joint-ventures between PDVSA and private companies in the production and processing of off-shore natural gas and extra-heavy crudes and bitumens are taxed at the lower 34-percent rate. Venezuela imposes a one percent assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustments for depreciation and inflation. It is deductible for income tax purposes. An investment tax credit of 10 percent is available for the purchase of capital goods to be used in manufacturing processes.

The government also has implemented a temporary, controversial 0.75 percent financial debit tax on financial transactions that covers credit card charges, withdrawal of funds and other debits to checking accounts, saving accounts, trust funds, and other money market funds; it may be continued beyond the end of 1994. A value added tax, which was applied at the wholesale level in late 1993, was converted to a "wholesale" tax in August 1994 and applied to all goods and services, including imports. The wholesale tax rate is to be defined each year within a range of 5 to 20 percent. The rate through the end of 1994 is 10 percent. An additional luxury tax of 10 or 20 percent for certain items was also established in mid-1994.

The Venezuelan tariff schedule has been substantially liberalized, and quantitative restrictions have been almost completely removed (prohibitions remain on used vehicles, used tires and used clothing). With its accession to the General Agreement on Tariffs and Trade (GATT) on September 1, 1990, Venezuela agreed to bind its tariff rate to a 40-percent ceiling. Venezuela's present maximum tariff rate is 20 percent, with the exception of a 35-percent tariff rate applied to passenger vehicles as part of the Andean Pact Common Automotive Policy. The country's average import tariff on a trade-weighted basis is around 10 percent. 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 temporarily 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.

4. Debt Management Policies

As of December 1993, Venezuela's public sector external debt totaled $27.3 billion, which included $6.7 billion in nonrestructured external debt (including commercial bank debt and military promissory notes). Medium-term private sector debt totaled an estimated $5.3 billion. External debt represents about 54 percent of GDP. In 1993, Venezuela's debt service payments totaled about $2.7 billion, or 19 percent of total exports. Debt service payments for 1994 are estimated to reach $3.2 billion, or 21 percent of total exports.

Relations with commercial creditors have deteriorated because the high inflation rate has increased the cost of servicing external debt obligations. In addition, stringent foreign exchange controls have slowed debt payments to official and commercial creditors. Due to higher US interest rates and downgrading of Venezuelan debt, the cost of borrowing has also risen.

In December 1990, the government rescheduled $19.8 billion in commercial bank debt within the context of the Brady Plan. Current government policy does not include an adjustment program with the IMF; The World Bank and Inter-American Development Bank are providing multi-year sectoral loans to assist with economic restructuring and infrastructure programs.

5. Significant Barriers to U.S. Exports

Import Licenses: Venezuela no longer has an import licensing regime. Sanitary and phytosanitary certificates from the Ministries of Health (Nota 3) and Agriculture (Nota 6), however, are required for most agricultural and pharmaceutical imports. 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 participation in enterprises engaged in television, radio, Spanish language press, and professional services subject to licensing legisla-

tion, is limited to 19.9 percent. As of January 1, 1994, banks from countries that provide reciprocal access to Venezuelan institutions may establish branches and 100 percent foreign-owned subsidiaries or acquire 100 percent equity in existing banks. Foreign companies now receive national treatment in the insurance sector. The sector was opened to foreign investment through reforms to the Insurance and Reinsurance Law, which were gazetted on December 23, 1994 in the Extraordinary Gazette Number 4.822.

Standards, Testing, Labeling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for issuance of COVENIN certificates.

The Consumer Law, which went into 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: Pursuant to Executive Decree 2095, published February 13, 1992, foreign equity participation is unlimited in all sectors of the economy, except those specifically restricted. Prior government approval is not required for investment in those sectors covered by the decree. Investors must simply register with the Superintendent of Foreign Investment within 60 days following the investment. Decree 2095 also guarantees the right of foreign investors to repatriate profits and permits shares of foreign companies to be publicly sold. The repatriation of capital has been complicated by the imposition of foereign exchange controls in June 1994. However, the Venezuelan govenment is attempting to resolve these difficulties through the publication of a series of specific relolutions by the Foreign Exchange Board.

In addition to the sectorial restrictions noted above under "Service Barriers," foreign investment is restricted 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 prior authorization of the legislature meeting in joint session.

The Andean Pact Common Automotive Policy, which entered into force on January 1, 1994, obligates auto assemblers in Venezuela to satisfy a minimum percentage foreign exchange contribution, to offset foreign exchange spent on imports, and a minimum precentage regional content. An addendum to the policy, which will take effect on January 1, 1995, eliminates the Venezuelan foreign exchange balancing requirement and modifies the formula for calculating regional content.

The Organic Labor Law, passed on May 1, 1991, limits foreign employment in companies with ten or more employees, to 10 percent of the payroll. Remuneration for foreign workers must not exceed 20 percent of total wages paid. Foreigners are prohibited from offering any of the professional services subject to licensing legislation (e.g. attorneys, architecture and engineering, medical professions, veterinary practice, economists, business administration/management, and accounting) unless they revalidate their title at a Venezuelan university.

Government Procurement Practices: The Law of Tenders, published on August 10, 1990 and subsequently modified though Decree 1906 on October 30, 1991, provides for three methods of procurement, depending mainly on the value of the goods and services being procured. For general or selective tenders which are within a reasonable range, this law permits, but does not require, preference to be given in awarding contracts to offers based on the extent to which they include national content, labor, investment, technology transfer, etc. PDVSA is required to purchase national materials and supplies; foreign purchases are permitted only if domestic firms cannot meet quantity, quality, or delivery requirements. Imported materials supplied by local representatives of foreign manufacturers are classified as "domestic purchases." Foreign firms that supply PDVSA must register with PDVSA's unified suppliers register or with the unified contractors registry. Venezuela is not a signatory of the GATT Government Procurement Code.

Customs Procedures: Customs clearance procedures are time consuming, and delays can occur if documents are not in order. Venezuela is not a signatory of the GATT Customs Valuation Code.

6. Export Subsidies Policies

Venezuela has reduced the number and type of export incentives, but has retained a duty drawback system which enables exporters to receive a rebate on duties paid

on imported inputs. The current system was established under Finance Ministry resolution 2603, dated June 10, 1994. Under the program, exporters must submit to Venezuelan customs information on the quantity of exports, imported and national inputs, and waste. The duty drawback is calculated by means of a formula which takes into account the exporter's production efficiency. Maximum rebates, which are expressed as a percentage of the export free-on-board (FOB) price, have been established by productive sector. Rebates are given in the form of Certificados de Reintegro Tributario (CERTs), which are denominated in local currency. CERTs are negotiable and transferrable, and can be used to cancel duty payments. The Wholesale and Luxury Tax Law, enacted August 1, 1994, also provides for a rebate of the wholesale tax paid on imports used in producing goods for export. The rebate is in the form of a tax credit, which is negotiable on the secondary market.

A joint resolution of the Foreign and Finance Ministries, published June 13, 1991, lists those agricultural products for which an export bonus is available. The program provides a credit against an exporters tax liability of one percent for certain agricultural items whose national value added is from 30 to 98 percent. For products whose value added is from 99 to 100 percent, exporters are eligible for a credit of 10 percent of the FOB value.

7. Protection of U.S. Intellectual Property

Venezuela does not yet provide an adequate and effective level of protection of intellectual property rights. Traditionally, Venezuela's intellectual property rights (IPR) regime has tended to protect national industries and firms. Nonetheless, recent changes have taken place which may benefit U.S. and other foreign firms by improving IPR protection. Specifically, on October 1, 1993, a new copyright law entered into force which strengthens copyright protection and increases sanctions for violation of the law. Andean Pact Decisions 344 and 345, which became effective January 1, 1994, have improved protection for patent and trademarks, and plant varieties, respectively.

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. The Chamber of Deputies approved legislation for Venezuela's accession to the Paris Convention for the Protection of Industrial Property on December 8, 1994, following Senate approval of the measure on October 31. President Caldera is expected to sign the law before the end of the year. Venezuala is not yet a signatory to the Patent Cooperation Treaty and the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite. Venezuela signed the Uruguay Round TRIPS Agreement and plans to implement it, along with the World Trade Organization, from January 1, 1995. The U.S. Trade Representative has placed Venezeula on the Special 301 "Watch List" as a result of its annual assessment under Section 301 of the 1988 Omnibus Trade and Competitiveness Act, most recently, in April 1994.

Patents: Although Decision 344 extended the patent term to 20 years; narrowed compulsory licensing arrangements; and lifted the ban on patentability of pharmaceutical products (except for those included on the World Health Organization list of essential medicines), deficiencies remain. Among these, the Decision did not grant transitional or pipeline protection for technologies previously excluded from patent eligibility (particularly pharmaceuticals and agricultural chemicals), working requirements were retained (although importation can be used to satisfy the requirement), and parallel imports are allowed. Few patents have been enforced under past and current law.

Trademarks: Decision 344 strengthened protection for well-known trademarks, prohibits the coexistence of similar marks, and provides for cancellation of trademark registrations for "nonuse" within the Andean Pact for three years or on the basis of "bad faith." However, problems remain with the registration process. Application procedures enable local pirates to continue producing and selling counterfeit products during lengthy opposition proceedings, often lasting for years. Trademark piracy is common in the clothing, toy, and sporting goods areas and enforcement remains poor.

Copyrights: Venezuela's Copyright Law is modern and comprehensive (Andean Pact Decision 351, which was adopted in December 1993, complements the Venezuelan law). Venezuela's law extended copyright protection to all creative works, including computer software. The law is currently in force and is being used aggressively by private concerns to combat piracy. However, the Venezuelan government has yet to pass regulations establishing a National Copyright Office, as mandated under the law. The National Copyright Office is to play a key role in enforcement efforts. Computer software and videotape piracy is still rampant and unauthorized

interception and retransmission of U.S. satellite signals and services is widespread. A local association of computer program companies estimates that 72 out of every 100 programs used in the country is pirated. According to the International Intellectual Property Alliance (IIPA), some of the largest pirate videotape manufacturing laboratories in South America are located in Venezuela. Pirate copies are sold on the domestic market as well as exported to a number of countries in the region, including the United States.

New Technologies: Computer software, satellite signals and cable television are covered under Venezuela's Copyright Law and Decision 351. Decision 344 excludes from patent protection diagnostic procedures, animals, genetic material obtained from humans, and many natural products. However, Decision 344 includes provisions for the protection of industrial secrets.

The IIPA estimated that U.S. trade losses due to inadequate copyright protection in Venezuela were approximately $123 million in 1993. Piracy of computer programs accounted for the largest losses ($51 million), followed by motion pictures ($40 million), books ($20 million), and records and music ($12 million). Comprehensive estimates for losses due to patent and trademark infringement were not available. However, at least one company has estimated its losses due to trademark piracy in Venezuela at $170 million between 1987 and 1993.

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 Congress approves the decree. The law prohibits employers from interfering with the formation of unions or with their activities and from stipulating as a condition of employment that new workers must abstain from union activity or must join a specified union.

c. *Prohibition of Forced or Compulsory Labor.*—There is no forced or compulsory labor in Venezuela. The 1990 labor law states 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, in occupations "that risk life or health" or 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		198
Total Manufacturing		1,371
Food & Kindred Products	221	
Chemicals and Allied Products	255	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	35	
Transportation Equipment	438	
Other Manufacturing	316	
Wholesale Trade		223
Banking		(1)
Finance/Insurance/Real Estate		156
Services		(1)
Other Industries		281
TOTAL ALL INDUSTRIES		2,295

[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

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

	1992[1]	1993[2]	1994[3]
Income, Production and Employment:			
GDP (at current prices)	45,300	46,500	N/A
GDP Growth Rate (pct.)	2.3	2.6	N/A
GDP Per Capita (USD)	1,674	1,694	N/A
By Sector:			
Agriculture	5,450	5,700	N/A
Industry	16,592	22,100	N/A
Services	14,142	15,700	N/A
Labor Force (millions)	6.2	6.45	6.70
Unemployment Rate (pct.)	22	24	N/A
Money and Prices: (annual percent growth)			
Money Supply	23.9	21.2	N/A
Consumer Price Index	31.8	20.8	31.0
Commercial Interest Rate	17	20	22
Exchange Rate (dinars/USD)	21.8	23.0	40.0
Balance of Payments and Trade:			
Exports (FOB)[4]	11,510	10,330	N/A
Imports (CIF)[4]	8,300	7,770	N/A
Current Account Balance	1,290	1,010	N/A
Exports to U.S.	1,694	1,711	1,232
Imports from U.S.	677	898	821
Trade Balance with U.S.	1,017	813	411
External Debt	26,349	24,600	N/A
Debt Service Payments	9,277	9,100	N/A
Gold and Foreign Exch. Reserves	3,318	3,300	N/A

N/A—Not available.
[1] World Bank data.
[2] U.S. Embassy estimates.
[3] Data as of August 1994.
[4] Merchandise trade.

1. General Policy Framework

With a rapidly growing population of about 27 million people and tremendous natural gas and petroleum reserves, Algeria has the potential to be a major market for American exports. Algeria has an aging industrial sector in need of new investment. The infrastructure of its cities is inadequate and often employs antiquated technologies. With the vast bulk of its territory desert, Algeria also will remain a substantial market for agricultural exports.

This potential for American exports of goods, services and investment so far has not been fully realized, due mainly to Algerian government mismanagement of the economy. With the exception of the state-owned hydrocarbons sector, an efficient economy able to compete internationally has never evolved. As a result, hydrocarbons exports still account for about 97 percent of Algeria's foreign exchange earnings. The low level of petroleum prices in 1993 left Algeria unable to finance needed imports and also make payments on its foreign debt.

During 1994, however, the Algerian government began in earnest a broad program aimed at freeing more hard currency for imports. It concluded an agreement with the International Monetary Fund (IMF) which allowed it to close a debt rescheduling agreement with its Paris Club creditors. The subsequent rescheduling of about five billion dollars in payments will make possible a substantially higher level of imports in 1995. The government is also negotiating a rescheduling of payments due on its five billion dollar commercial debt. Meanwhile, Algeria also signed the Uruguay Round agreements which now await ratification by the country's legislature.

In conjunction with its IMF accord, the government also enacted measures to transform eventually the state-managed economy to one guided by market forces. Beyond the structural measures discussed in section 3 below, the government reduced its budget deficit from about nine percent of GDP in 1993 to about three percent in 1994. It cut a broad series of consumer-good subsidies and raised energy prices. It also restrained government expenditures and limited wage increases to the roughly two-thirds of the labor force who work in the government, public and private sectors. The government has financed its budget deficits primarily by borrowing from the Bank of Algeria (Central Bank) which increased the money supply. The government had little choice, since monetary policy instruments are relatively rudimentary. There are no bond sales to finance government spending, and much of the money circulating in the economy is outside government control in the parallel market. Reduced bank financing for the government budget deficit and public-sector enterprises has slowed money supply growth from about 22 percent in 1993 to roughly 14 percent in 1994. To attract some of the liquidity back out of the parallel economy into the formal commercial sector, the government raised interest rates at the banks. These measures should reduce inflation in 1995 from the roughly 30 percent level of 1994.

The period of transition for an economy in which the government-owned sector is so predominant will take years. Moreover, the ultimate success of the reform policies will remain linked to an improvement in the unsettled political and security situation.

2. Exchange Rate Policy

The dinar is still not a fully convertible currency. However, the structural readjustment changes put into effect this year, such as the debt rescheduling, the devaluation of the dinar and an easing of controls on imports and access to hard currency, have made it somewhat easier for companies to buy the hard currency necessary to pay for imports. In April, after negotiations with the IMF, the Algerian government devalued the dinar by forty percent, setting the official rate at USD 1 equals 36 dinars. By November that value had fallen to an official value of USD 1 equals 41.7 dinars, versus a black market rate of approximately USD 1 equals 65 dinars. To establish the exchange rate, the Algerian Central Bank sells foreign currency to the commercial banks once a week, thus tying the exchange rate to commercial demand. Central Bank officials anticipate that by 1995 foreign currency sales to banks will be made on a daily basis.

In 1994 the Algerian government made it easier for investors and private citizens to buy and to hold foreign currency. Algerian banks allow deposit accounts denominated in a foreign currency. The most restrictive control still limiting the ability of potential investors to import products is the commercial banks' requirement that an importer deposit the full cost of the imported item and also a percentage of the cost in the bank before it will ask international banks for letters of credit. The banks justify this extra charge by saying that their costs have risen. This extra dinar margin also protects the Algerian banks from losses stemming from additional devaluations. International banks have been reticent in extending new credit lines to Algerian banks because of the debt rescheduling and because of a longer term concern about the political unrest in Algeria.

3. Structural Policies

Prior to the initiation of its reform policies, the government controlled many prices directly and allowed fixed profit margins on many others. In April 1994, the government eliminated controls on prices for agricultural equipment and spare parts and lubricants. These measures should lead to an increase in U.S. exports of these products. The government is also moving towards eliminating the requirement that producers notify it of their prices with an obligation that they simply publish their prices. This should encourage more efficient pricing policy, especially in sectors such as food industries and construction which could utilize American inputs.

Government officials stress their desire for foreign investment and have sought to streamline the application process. In October 1993 the government issued an in-

vestment code which liberalizes the regulatory environment outside of the hydrocarbons sector. The code provides investors with a three-year exemption from the value added tax on goods and services used as production inputs and a two to five year exemption from corporate taxes. It also cut the duty on imported goods to three percent and placed a ceiling of seven percent on an employer's contribution to local social security. The government, in November 1994, was preparing to create an agency, modelled on success stories in Morocco and Tunisia, to determine incentive eligibility and shepherd the applications through the maze of Algerian bureaucracy. In July of 1994 the government opened to foreign investment up to 49 percent of selected public-sector enterprises: there is no limit on ownership shares of the subsidiaries now owned by public-sector firms. An influx of foreign investment, however, hinges on improvements in the security situation.

4. Debt Management Policies

The fall in oil prices in the last quarter of 1993 triggered a balance of payments crisis that obliged Algeria to conclude an IMF agreement and seek debt relief. The Algerian government had resisted debt rescheduling, preferring to carry a heavy payments load (in 1991 debt service payment consumed 75 percent of export earnings, and in 1992, 77 percent) rather than permit outside "interference" in the monetary management of the country. The Algerian government was facing 9.3 billion dollars of debt servicing in 1994 and the possibility of export revenues reaching only USD 8.8 billion to USD 9 billion. Unable to secure large new inflows of credit, the government could continue on its old policy track no longer.

After the IMF approved Algeria's reform program on May 31, 1994, Algeria reached agreement on June 1 with its official (Paris Club) creditors to reschedule USD 5.3 billion in principal and interest payments falling due between June 1994 and May 1995. An eventual agreement with commercial debtors to reschedule commercial debt payments coming due is expected to further reduce Algeria's debt substantially. Central Bank foreign exchange reserves quickly recovered from 1.5 billion dollars in December 1993 to 2.8 billion in August 1994. This provided Algerian commercial banks far easier access to hard currency for their customers. In addition, the World Bank released 150 million dollars in July 1994 as part of its loan for public-sector reform. However, because of the debt rescheduling, some commercial and official creditors have been reluctant to extend new credit lines to Algerians, thereby limiting Algerian importers' ability to take further advantage of the government's reform measures.

5. Significant Barriers to U.S. Imports

The government has deregulated the foreign trade sector significantly, but some controls remain. The list of items which may not be imported was reduced from 107 products to 85 in April 1994. Those items still on the list are foods, consumer goods and machinery produced in the Algerian public sector for which the government wants to extend trade protection. The government has indicated it will eliminate this list entirely by early 1995, thus opening up many new product areas to potential U.S. exporters. The government maintains a second list of products for which an importer must receive a special permit. This list includes a number of goods in which American producers enjoy comparative advantage, such as wheat, flour, barley, powdered milk, medicines and medical equipment. Some Algerian business people have complained that the necessary permits are difficult to obtain. It is unclear when this second list will be abolished.

Aside from import controls, many importers still lack ready access to foreign exchange by which they can finance imports from the U.S. Prior to the June 1994 Paris Club accord, there was an acute shortage of foreign exchange, and the government channelled the available hard currency resources into priority needs, such as food imports. As 1994 progressed, hard currency reserves at the Bank of Algeria increased substantially. Nonetheless, imports were slow to increase for two reasons. First, well-established importers, most notably public-sector enterprises, lack dinar liquidity with which to buy the foreign exchange. In addition, the Bank of Algeria in April 1994 ordered banks not to provide importers with foreign exchange until they had undertaken careful study of the importers' projects. Many business people claim the banking system is too bureaucratic to complete the studies quickly, and the applications for hard currency have piled up. Notably, private importers have obtained only about 18 percent of the foreign exchange allocated to imports in 1994, with the remainder channelled to the public sector.

To save hard currency, the Algerian government gives preference to local engineering and construction firms unless the technology needed is not available in Algeria. The ability of foreign firms to obtain contracts depends critically on their ability to offer attractive financing. U.S. Eximbank's decision in April 1994 to suspend

new medium- and long-term financing will hinder U.S. firms' ability to find suitable finance terms for Algerian customers. Firms from countries retaining extensive bilateral lines of credit with Algeria have an advantage over U.S. firms in this regard.

The government had maintained a monopoly on particular services, most notably insurance and banking. In November 1994 the legislature is reviewing a draft bill ending the government's monopoly in the insurance sector. The banking sector, however, is opening up to private investors. One private bank now operates in Algeria, and a second bank has received a license. Foreign banks are allowed to have representative offices in Algeria, but these may not engage in commercial transactions. A U.S. bank, Citibank, maintains such an office in Algeria.

6. Export Subsidies Policies

About 97 percent of Algeria's export earnings come from the hydrocarbons sector. To date few other economic activities able to compete internationally have emerged. The government's contractionary budget policies preclude it from offering any kind of explicit export subsidy to foster new exports. Exporters do enjoy below-market priced energy, but to the extent that the official rate for the dinar remains overvalued, exporters pay an implicit tax as well.

7. Protection of U.S. Intellectual Property

Algeria is a party to the Universal Copyright Convention and the Paris Convention for the Protection of Industrial Property. 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 technical capabilities. There are no reports of trademarks being counterfeited or suffering problems obtaining registration.

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 limits are imposed on union activities. Unions may not 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 of the workplace.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor has not been practiced in Algeria and is incompatible with the Constitution.

d. *Minimum Age of Employment of Children.*—The minimum employment age is 16 years and state inspectors enforce this regulation in the state sector. It is not much enforced in the agricultural sector or in the growing informal sector, where economic necessity is forcing a growing number of children into menial jobs.

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 set by the government. Algeria has a 44-hour workweek. A government decree regulates occupation and health standards.

f. *Rights in Sectors with U.S. Investment.*—Nearly all U.S. investment is located in the hydrocarbons sector. The rights outlined above better enjoyed by Algerian workers at these U.S. facilities than 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		3
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.

BAHRAIN

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
GDP (at current prices)	4,338	4,555	4,637
GDP Growth (nominal)	3.4	5.0	1.8
Per Capita GNP (USD)	8,300	8530	8725
Labor Force (000s)	203	212	221
Unemployment (pct.)	12	15	15
Money and Prices:			
Money Supply (M2/ann. pct. growth)	4.1	5.5	6.0
Prime Interest Rate	7.5	6.1	6.5
Savings Rate	3.5	3.0	3.0
Consumer Price Inflation	2.0	4.8	2.3
Consumer Price Index (1983/84=100)	96.5	101.1	103.5
Exchange Rate (USD/BD)	2.65	2.65	2.65
Balance of Payments and Trade: [2]			
Total Exports (FOB)	3,408.2	3,675.6	3,174.7
Non-Oil Exports to U.S.	69.0	102.2	103.0
Total Imports (CIF)	4,133.7	3,811.2	3,561.6
Non-Oil Imports from U.S. [3]	345.1	349.4	277.0
Aid from Other Countries	50	50	50
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 Foreign Exch. Reserves	1,449	1,350	1,336
Trade Balance	(−725.5)	(−135.6)	(−386.9)
Non-Oil Balance with U.S. [3]	(−276.1)	(−247.2)	(−174.0)

N/A—Not available.
[1] 1994 Figures are all estimates based on data available in October 1994.
[2] Trade figures are for merchandise trade.
[3] Excluding imports of military items and civil 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, which is shared with and managed by Saudi Arabia.

The budgetary accounts for the central government are prepared on a biennial basis. The budget for 1993–94 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 1993, revenue was $1.487 billion and expenditures were $1.659 billion. The resulting $172 million shortfall was financed through the issuance of three-month and six-month treasury bills to domestic banks, according to the normal practice of recent years. 1994 revenue is projected to be $1.590 billion and expenditures are projected to be $1.789 billion. The projected $199 million deficit will also be financed through the issuance of treasury bills. The 1995–96 budget is expected to be approved by the Council of Ministers by spring 1995. It will most likely project budget shortfalls similar to those seen over the past two years.

The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (A) discounting treasury bills; and (B) sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date ("repos"). Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has no legal authority to fix interest rates, it has published recommended rates for Bahraini dinar deposits since 1975. In 1982, the BMA instructed the commercial banks to observe a maximum margin of one percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989, the maximum prime rate was abolished and, in February 1990, new guidelines permitting the issuance of dinar certificates of deposit (CD's) at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the Bahraini dinar and the U.S. dollar at the rate of one U.S. dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

Bahrain ratified the Uruguay Round Agreements and became one of the founding members of the World Trade Organization (WTO) on January 1, 1995. Bahrain is also a member of the regional Gulf Cooperation Council (GCC). As a member of the GCC, Bahrain participates fully in its 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 negotiations on a trade agreement with the European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competitiveness of U.S. products

within the GCC, including Bahrain. Bahrain is 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 this year announced that it would not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the Government of Bahrain does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices are basically dependent upon the source of supply, shipping costs and agents' mark-ups. Since the opening of the Saudi Arabia-Bahrain Causeway in 1985, local merchants are less able to maintain excessive margins and, as a consequence, prices have tended to fall toward the levels prevailing in other GCC countries.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain is levied on oil, gas, and petroleum companies. There is no individual income tax, nor does the island have any value added tax, property tax, or production tax. A few indirect and excise taxed are assessed. Aside from customs duties, including a tax on gasoline, a ten percent municipal levy on rents paid by residential tenants and a 12.5 percent tax on office rents are imposed.

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, was financed in part through foreign commercial and supplier credits. The Government of Bahrain does not regard this debt as sovereign risk. 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 at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and in recent years promulgated regulations permitting 100 percent foreign ownership of new industrial establishments and the establishment of representative offices or branches of foreign companies without local sponsors. Most other commercial investments are subject to government approval and generally must be made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the U.A.E., foreign nationals are not permitted to purchase land in Bahrain. The government encourages the employment of local nationals by setting local-national employment targets in each sector and by restricting the issuance of expatriate labor permits.

Government Procurement Practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministry of Works, Power, and Water extends invitations to selected, prequalified firms. Likewise, construction companies bidding on government construction projects must be registered with the Ministry of Works, Power, and Water. Smaller contracts are handled by individual ministries and departments and are not subject to prequalification.

Customs Procedures: The customs clearance process is used to enforce the primary boycott of Israel. While goods produced by blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance. Bahraini customs also enforces the Foreign Agency Law. Goods manufactured by a firm with a registered agent in Bahrain may only be imported by that agent or, if by a third party, upon payment of a commission to the registered agent.

6. Export Subsidies Policies

The Government of Bahrain provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly-established export industries. The government does not specifically target subsidies to small businesses. Bahrain is a member of GATT, the GATT Subsidies Code, and the WTO.

7. Protection of U.S. Intellectual Property

The Government of 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. Procedures for enforcement even of this limited law are unduly cumbersome, and there is no effective enforcement mechanism. Consequently, protection of intellectual property is considered unsatisfactory by U.S. standards. The sale of unauthorized cheap video and audio tapes and counterfeit computer software is widespread. Patents and trademarks, however, are 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 be registered for a period of five years, but the registration is only renewable for two periods of five years each; (3) A patent can be registered for 15 years, renewable for one five-year period if the patent is deemed by the Patents and Trademarks Registration Office of the Ministry of Commerce and Agriculture to be of special importance and not to have realized revenue commensurate with the expenses involved in its formulation.

The enforcement of trademarks is generally left to the local agent or an appointed representative of the trademark owner. The government does not have a proactive policy of seeking and/or removing counterfeit goods from the marketplace. Trademark registration fees and procedures have not been identified as obstacles to seeking or maintaining trademark protection.

Infringement of new technology in Bahrain is basically limited to software piracy. Private satellite receivers are banned. The U.S.-based Cable News Network (CNN) is transmitted for one hour every night 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 other 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 originally published in Bahrain. There are no reliable estimates of losses to U.S. trade as a result of Bahrain's failure to provide adequate copyright protection. However, as part of its Uruguay Round obligations under the Trade Related Intellectual Property Agreement (TRIPS), Bahrain will bring its laws into conformity with international intellectual property rights conventions.

8. Worker Rights

a. *The Right of Association.*—The partially suspended 1973 Constitution recognizes the right of workers to organize, but trade unions do not exist in Bahrain, and the government does not encourage their formation. However, the government passed a series of labor regulations which, among other things, allow the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of joint labor-management consultative councils (JCCs) established by ministerial decree. Between 1981 and 1984, 12 JCCs were established in the major state-owned industries. In 1994, four new JCCs were established in the private sector, including one in a major hotel. Further expansion of the JCC system into tourism and banking sectors is under active consideration. The JCCs are composed of equal numbers of appointed management representatives and worker representatives elected from and by company employees. The selection of worker representatives appears to be a fair process, and worker representatives appear generally to genuinely represent worker interests. The elected labor representatives of the JCCs select the 11 members of the General Committee of Bahraini Workers (GCBW) established in 1983 by law, which oversees and coordinates the work of the JCCs. The JCC-GCBW system represents close to 70 percent of the islands indigenous industrial workers, although both government and labor representatives readily admit that nonindustrial workers and expatriates are clearly underrepresented within the system.

b. *The Right to Organize and Bargain Collectively.*—While the JCCs 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 strike. There are no recent examples of major strikes, but walkouts and other job actions have been known to occur without gov-

ernmental intervention and with positive results for the workers. Minimum wage rates are established by Council of Ministers' decree. Increases in wages above the minumum, which are subject to discussion in the JCCs, 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 prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts, as well as Ministry of Labor responses. Once a complaint has been lodged by a worker, the Labor Ministry 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 ages 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 (labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor law are generally considered to favor the worker/employee. The law provides protection for both Bahraini and expatriate workers. However, all foreign workers are required to be sponsored by Bahrainis or institutions and companies based in Bahrain. Foreign workers, particularly those from developing countries are often unwilling to report abuse for fear of losing residence rights in Bahrain and having to return to their native countries, in which they would 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 primarily in the petroleum sector. It takes the form of minority share interests in the Bahrain Petroleum Company (BAPCO), Bahrain National Gas Company (BANAGAS), and the Bahrain Aviation Fueling Company (BAFCO). There are also joint venture factories producing plastic bottle caps, tissues, and pipes. Workers at all these companies enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		25
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		4
Banking		−152
Finance/Insurance/Real Estate		(1)
Services		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	0
TOTAL ALL INDUSTRIES	−114

[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 U.S. dollars unless otherwise noted]

	1991/92	992/93	993/94
Income, Production and Employment:			
Real GDP (1991/92 prices)[1]	3,947	40,341	41,177
Real GDP Growth (pct.)	N/A	2.5	3.6
Current GDP by Sector:.			
Agriculture	6,530	6,C73	6,797
Industry/Mining	6,545	6,715	6,886
Petroleum/Related Products	3,918	3,967	4,051
Electricity	668	689	707
Construction	2,028	2,042	2,103
Transportation	2,623	2,721	2,781
Suez Canal	1,845	1,742	1,806
Trade	6,545	6,712	6,878
Finance	1,369	1,405	1,447
Insurance	23	24	24
Tourism	729	758	608
Housing	708	736	775
Public Utilities	121	128	134
Social Insurance	26	28	28
Government Services	2,814	2,925	2,995
Personal Services	2,980	3,076	3,154
Per Capita GDP (1991/92 prices)	715	715	714
Labor Force (000s)	15,141	15,571	16,013
Unemployment Rate (pct.)	9.2	10.1	9.8
Money and Prices:			
Money Supply (M2)	31,511	36,576	N/A
Banks Lending Rate (pct.)[2]	20.6	19.1	17.5
Banks Saving Rate (pct.)[2]	16.2	15.1	12.1
Consumer Price Index (pct.)	9.7	15.0	N/A
Wholesale Price Index (pct.)	14.0	10.2	N/A
Exchange Rate (USD/LE)			
Free Market Rate	0.332	0.333	0.338
Balance of Payments and Trade:			
Total Exports (FOB)[3]	1,094	1,026	N/A
Exports from U.S. (CY/USD)[4]	3,037	2,762	1,579
Total Imports (CIF)[3]	3,028	3,222	N/A
Imports to U.S. (CY/USD)[4]	434	613	324
Trade Balance	−1,933	−2,196	N/A
Trade Balance with U.S. (CY)	−2,603	−2,149	−1,255
Aid from U.S. (USFY/obligations)	2,342	2,097	1,892
External Public Debt[5]	5,300	3,430	3,400
Debt Service Payments (paid)	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1991/92	992/93	993/94
Gold and FOREX Reserves[6]	9,900	1,480	1,600

N/A—Not available.
The Egyptian fiscal year is July 1 to June 30; Unless otherwise indicated, all figures above are for this period.
[1] Real GDP are factor cost figures based on the 1991/92 prices.
[2] Lending and deposit rates are average estimates.
[3] Total imports (CIF) and total exports (FOB) are drawn from the Central Bank of Egypt's annual report and are based on the Egyptian fiscal year.
[4] U.S./Egypt trade figures are based on CY. The 1994 figures cover the period January 1994 through end July 1994.
[5] Ministry of Finance and Central Bank preliminary estimates.
[6] Central Bank preliminary figures, excluding gold.

1. General Policy Framework

Egypt is instituting reforms to reduce the role of the state and increase reliance on market mechanisms. In 1991, Egypt lifted most foreign-exchange controls, unified the exchange rate, instituted a sales tax, reduced the budget deficit, freed interest rates and began financing the deficit through treasury bill auctions. In the last three years, a stable Egyptian pound (LE) against the dollar and high interest rates have prompted a preference for the use of pounds in favor of dollars by the economy and fed a steady growth in the money supply. While the macroeconomic stabilization program has proved highly successful, the Government has proceeded more cautiously in key areas such as trade policy and privatization. Three years into the economic reform, the international financial institutions and donors are concerned that the Government's timid approach to structural reform is condemning the economy to prolonged stagnation.

Follow-on IMF and World Bank programs focus on supporting the private sector. The Government has taken tentative steps toward privatization of the public sector, which represents approximately 70 percent of industrial production. In 1993, the 314 public sector enterprises were organized into 17 holding companies, which are permitted to sell, lease or liquidate company assets, and sell Government-owned shares. The Government claims to have sold approximately LE 4.5 billion (USD 1.3 billion) in assets to date. Despite these claims, delays in the procedure, disagreements over the valuation process, and a general reluctance to follow through on bids have slowed the process to a crawl. Outright sales have been few and share flotation, a method now favored by the Government, have been hampered by the weakness of the long-dormant stock exchange. Further, many important public sector companies are not candidates for privatization, including the national airline (Egypt Air), telecommunications (Arento), and electricity utilities (EEA). Trade reform has been significant; but domestic industry remains protected by relatively high tariff rates and non-tariff import barriers. In 1993, import bans on most commodities were eliminated, and in 1994 the maximum tariff rate was reduced from 80 percent to 70 percent (with a few exceptions).

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 spur private investment, which remains dormant outside of the tourism sector. 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 1993 totaled USD 2.8 billion. Annually over USD 200 million worth of exports are financed through USAID's Commodity Import Program, over USD 400 million through various USAID projects and about USD 165 million under Department of Agriculture programs (GSM/102). A substantial portion of the USD 1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

2. Exchange Rate Policy

Egypt, in November 1991, adopted a free-market exchange system subject only to Central Bank buying and selling intervention. The exchange rate is essentially free of restrictions now and non-bank dealers are allowed. High interest rates and stable exchange rates have stimulated large capital inflows and a change in preference favoring the use of pounds instead of U.S. dollars by the economy. Central Bank foreign exchange reserves stand at USD 17 billion. New inflows are concentrated in short-term deposits and Treasury bills. A new foreign currency law was passed in

April 1994, eliminating all restrictions on repatriation of tourism and export proceeds.

Exchange rate stability and the sharp increase in the availability of hard currencies, now readily accessible in the 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 significantly due to the exchange rate which has not been depreciating to compensate for annual inflation rates of 10–13 percent.

3. *Structural Policies*

Egypt is committed to eliminating most domestic price controls. The Government freed all industrial prices with the exception of pharmaceuticals, cigarettes, rationed sugar and rationed edible oil. The Government still subsidizes mass-consumption bread, which stimulates demand for U.S. wheat. The Government has shown no sign of relaxing price controls on pharmaceutical products, which are administered inflexibly and are financially harmful to U.S. and other foreign pharmaceutical companies. While energy, transportation, and water prices are expected to remain administered, price increases have brought domestic petroleum product prices to about 88 percent of international prices (June 1993) and electricity prices to about 77 percent of long-run marginal costs (the exact figure is in dispute between the World Bank and the Government). The Government is committed to raising energy prices further. Additionally, the Government is in the process of deregulating the cotton sector and reactivating the cotton exchange.

Despite much progress, domestic industry is still protected by high tariff rates. In March 1994, the maximum tariff rate was cut to 70 percent and tariffs between 70 and 30 percent were reduced by ten percentage points. The lower rate was maintained at five percent. The Government is committed to reduce further the maximum custom tariff to 60 percent by end–1994 and 50 percent by mid-1995. Several commodities including passenger cars, tobacco products, and alcoholic beverages are exempt from the tariff ceiling. In February 1994, the Government imposed "service fee" surcharges of three and six percent (depending on the custom duty of the imported item), which undid much of the benefit of the customs rate reduction. After the World Bank cried foul, the Government undertook to abolish this surcharge by July 1995. In addition to the custom tariff, a sales tax ranging between five and 25 percent is added to the final customs value of the imported item. Assembly industries may benefit from lower custom rates on imported goods if they meet a local content requirement of 40 percent. Continued liberalization of the import regime and free-market pricing of domestically-produced commodities should help U.S. goods competing in the Egyptian market.

The Government instituted a General Sales Tax (GST), at first applicable at the import and manufacturing level, in May 1991. The GST is to develop in stages into a full value added tax by 1995. Taxes on certain consumer goods (alcoholic and soft drinks, tobacco and petroleum products) not integrated in the GST were raised and progressively converted to ad valorem taxes. A Unified Income Tax has been passed which reduces marginal tax rates, simplifies the tax rate structure, and aims to improve administration of tax policy. Both the GST and the income tax are designed to broaden the tax base and compensate for the loss of customs revenues caused by tariff reductions.

4. *Debt Management Policies*

In early 1991, official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. Release of the three tranches was conditioned on successful review of Egypt's reform program by the IMF. At about the same time, the U.S. Government forgave 6.8 billion dollars of high-interest military debt. As a result, Egypt's total outstanding medium- and long-term debt has declined to about USD 34 billion, and the debt service ratio has been reduced from 46 percent to around 17 percent. Egypt has cleared-up its arrearages to Paris Club creditor countries and is committed to remaining current on its Paris Club payments. The reduction in Egypt's debt service bill has helped it reduce dramatically the budget deficit, create macroeconomic stability and build a high level of reserves (approximately USD 17 billion). In September 1993, the IMF announced an extended fund facility of Special Drawing Rights (SDR) 400 million (USD 556 million), covering the period June 1993 to June 1996. The World Bank is working in parallel with the IMF on a Structural Adjustment Monitoring Program (SAMP). In July 1994, the Paris Club postponed implementation of the final tranche of debt relief, due to a lack of satisfactory IMF review, as required by the agreed minute.

5. Significant Barriers to U.S. Exports

Import Barriers: Egypt does not require import licenses. In July 1993, the Government canceled the list of items requiring prior approval before importation. The import ban list, which included 210 products in 1990, was significantly reduced in July 1993 and it now includes three commodity groups: poultry, fabrics and apparel, which 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. For food and non-food imports that have a shelf-life, the Government mandates that they should not exceed half the shelf-life at time of entry into Egypt.

Services Barriers: 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. The domestic insurance market is closed to foreign companies, but they may operate in free trade zones as minority partners. 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 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.

Standards, Testing, Labeling and Certification: Egypt is 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. In August 1994, five more items were added to the list, which now consists of 131 items, including food stuffs, spare parts, construction products, electronic devices, appliances, and many consumer goods. Although Egyptian authorities stress that standards applied to imports are the same as those applied to domestically-produced goods, importers report that testing procedures for imports differ, and tests are carried out with faulty equipment by testers who often make arbitrary judgments. Moreover, importers face the problems of ill-defined or unwritten product standards, and backlogs resulting from authorities having limited staff or too few inspection machines.

All imported goods should be marked and labeled. The following information must be written on each package in clear Arabic letters in a non-erasable manner: the name of the product, type and brand; country of origin; date of production and expiry date; any special data on transportation and handling of the product. An Arabic-language catalog should accompany imported tools, machines and equipment.

Investment Barriers: In early 1991, Egypt replaced its investment licensing regime with a system for automatic approval of investments in sectors not on a "Negative List." The list now includes: all military products and related industries; tobacco and tobacco products; and investments in the Sinai (except oil, gas, and mineral exploration). Foreign investors seeking incentives (primarily tax holidays) under Investment Law 230 must obtain project approval from the General Authority of Investment (GAFI), which may cause delays. Industrial establishments may also be formed under Companies Law 159, but they will not receive 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 American 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. Egypt's tender regulations are written by the Government, for the Government's benefit. A contractor/supplier's safeguard must be negotiated before contract signing, particularly in defining force majeure, "final acceptance," and dispute resolution. Egyptian bidders (public and/or private sector) receive a 15 percent price preference. Government tenders should be awarded to the best qualified, lowest bidder; however, it is typical for Government negotiators to bargain with several bidders. There is no penalty for Government delays in making an award decision or in returning bid or performance bonds. Egypt does not observe the Arab League boycott of Israel. Egypt has moved away from government-to-government barter agreements and toward private sector initiatives.

Customs Procedures: Egyptian customs procedures are complicated and rigid in areas such as duty rates. Customs procedures are subjective when it comes to identifying whether a commodity fits in one tariff category or another. In February 1994, Egypt implemented the Harmonized System (HS) which replaces the previously used CCCN (Customs Commodity Classification Nomenclature). This should help eliminate the arbitrariness because it identifies items by a ten-digit code which allows simpler and more accurate classification of commodities. 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 from any source, although some allowance is given on an ad hoc basis for different sources of supply (such as expensive versus cheap-labor source countries). 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 abide by tariff rates outlined in the 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.

6. Export Subsidies Policies

Direct export subsidies do not exist in Egypt. Exporting industries, including Investment Law 230 projects, may benefit from duty exemptions on imported inputs (if released under the temporary release system). Alternatively, these industries may receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian Government has increased energy and cotton procurement prices, and has abolished privileges enjoyed by public sector enterprises (subsidized inputs, credit facilities, reduced energy prices and preferential custom rates), thus reducing the indirect subsidization of exports.

7. Protection of U.S. Intellectual Property

Egypt, as a party to the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property (inter alia), has undertaken to protect U.S. intellectual property. Egyptian law provides protection for most forms of intellectual property rights (IPR). However, IPR enforcement, although improving, is still ineffective. The Egyptian government passed an improved copyright law in 1992 and added software protection in early 1994. A new patent law is currently under consideration. Due to Egypt's progress on copyright protection, the U.S. Trade Representative lowered Egypt from the "Priority Watch List" to the "Watch List" in April 1994. The U.S. Government is working closely with Egypt to improve intellectual property rights protection.

Patents (product and process): Egypt's 1949 Patent Law excludes certain categories of products and contains overly-broad compulsory licensing provisions. Industrial designs also receive protection under the patent law through registration with the Bureau of Industrial Designs in the Ministry of Supply. Pharmaceuticals and food products are among those excluded from patent protection under Egyptian law. In addition, for patentable products or processes, the term of patent protection is limited to 15 years from the application filing date. A five-year renewal of a patent may be obtained, but 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, are granted if a patent is not worked in Egypt within three years or if the patent is worked inadequately. In 1994 U.S. officials conferred with Egyptian officials as they considered revisions to the existing patent law. At the end of the year, the GOE had made substantial progress toward a draft law. However, the U.S. government continues to express its concern that the new law include adequate patent protection for products not currently covered (including pharmaceuticals, food products and agricultural chemicals) and that the new law be consistent with international conventions to which Egypt is a party, particularly the Paris Convention.

Trademarks: Trademark protection is provided by Law 57 of 1939. Egypt is a member of the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the Classification of Goods and Services. Instances of trademark infringement have been cited by U.S. and other foreign firms operating in Egypt. The Trademark Law is not enforced strenu-

ously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than USD 100 per seizure, not per infringement, although criminal penalties are theoretically available.

Copyrights: In response to calls for improved legal protection for copyrighted works, the Government passed Law 38 of 1992, amending the 1954 Copyright Law. The amendments did not resolve all areas of U.S. concern, however. The Berne Convention, to which Egypt acceded in 1977, is self-executing according to Egypt's Constitution. Thus, in cases where the coverage of the Egyptian copyright law may be vague or non-existent, such as protection for satellite or cable transmissions and data banks, and on the question of retroactivity, U.S. copyright holders may be able to rely directly on Berne Convention provisions in the Egyptian courts. As a result of U.S. lobbying, in March 1994, the Egyptian government passed Law 29 which amended some provisions of Law 38 to ensure that computer software was afforded protection as a literary work (allowing it a 50-year term of protection). In addition, in April 1994, the Government issued a ministerial decree which clarifies rental and public performance rights, protection for sound recordings, and the definition of personal use. Copyright piracy is still widespread and affects all categories of works. Although motion picture piracy (in video cassette format) has declined over the past year, holders of copyrights on sound recordings, printed matter (notably medical textbooks), and computer software continue to suffer harm. Most piracy seems to be for the local market, with some imports of pirated works from Lebanon and the Gulf States.

New Technologies: There is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington Semiconductor Convention. Further, plant and animal varieties do not receive protection under current law.

Estimated 1993 trade losses due to piracy of U.S. intellectual property were USD 84 million of which approximately USD 11 million were due to video piracy (a significant drop from the 1992 level of USD 37 million prior to the passage of Copyright Law 38/92), and USD 52 million in losses due to computer software piracy. U.S. officials continue to stress the need for better enforcement efforts by Egyptian authorities and to underscore the importance of following police activity with court decisions and prosecutions.

8. Worker Rights

a. *The Right of Association.*—Egyptian workers may, but are not required to, join trade unions. A union local, or worker's committee, can be formed if 50 employees express a desire to organize. Most members, about 25 percent of the labor force, are employed by State-owned enterprises. 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. However, the International Labor Organization (ILO) has long noted that a law requiring all unions to belong to a single federation infringes on a worker's freedom of association. The Government has shown no sign that it intends to accept more than one federation and ETUF leadership asserts that it actively promotes worker interests and that there is no need for another federation. ETUF leadership has close relations with the ruling National Democratic Party: some ETUF leaders are members of the legislature. While ETUF leaders speak vigorously on behalf of workers' concerns, public confrontations between ETUF and the government are rare. Disputes are often resolved by consensus behind closed doors.

b. *The Right to Organize and Bargain Collectively.*—The Government has drafted a new labor law which is under discussion in committee in the People's Assembly. The proposed law provides statutory authorization for collective bargaining. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agrees to such negotiations, but unions otherwise lack collective bargaining power in the public 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 of 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 seven 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 1988 survey found that 1.4 million children be-

tween the ages of 6 and 14 work in Egypt. 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, in heavier industries such as brick making and textiles, and as workers in leather factories and carpet-making, which largely supply the export market. While local trade unions report that labor laws are well-enforced in state-owned enterprises, enforcement by the Ministry of Labor in the private sector, especially in family-owned enterprises, appears quite lax.

e. *Acceptable Conditions of Work.*—For government and public sector employees, the minimum wage is approximately USD 20 a month for a six-day, 48-hour work week. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. 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 Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors with U.S. Investment.*—There are U.S. investments in the following industries (inter alia): petroleum, food and related products, metal, non-electric machinery, electric and electronic equipment, and transportation equipment. Rights available to workers as described in the foregoing sections also apply to workers in these industries.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,087
Total Manufacturing		81
Food & Kindred Products	(1)	
Chemicals and Allied Products	6	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	5	
Electric & Electronic Equipment	5	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		41
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		36
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,374

[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	1991–92	992–93	993–94
Income, Production and Employment:			
Population (millions)	55.8	57.0	62.0
Real GDP[1]			
(billion 1985 rials)	16,871	17,647	18,176
(million USD)	59,300	65,000	66,950
Per Capita GDP USD	1,071	1,140	1,140
Real GDP Growth (pct.)[1]	8.6	4.6	3.0

Key Economic Indicators—Continued

[Millions of Iranian rials (IR) unless otherwise noted]

Years ending March 20	1991-92	992-93	993-94
GDP by Sector: (pct. of GDP)			
Manufacturing	21.2	21.0	21.0
Agriculture	23.3	23.3	23.0
Petroleum	21.2	21.0	21.0
Services	35.5	36.0	36.0
Money and Prices:			
Money Supply (M1/billion rials)	14,300	17,000	N/A
Interest Rate on Short-term Deposits (pct.)	6.5	7.0	N/A
Wholesale Price Index (1985 = 100) End-Year	417.1	547.6	712
Consumer Price Index. (1985 = 100) End-Year	346.6	411.0	534
Exchange Rate (IR per USD)			
Basic Rate	67.4	67.1	1,740
Floating Rate	1,440	1,540	2,200
Balance of Payments and Trade: (millions of U.S dollars)			
Total Exports (FOB)[1]	18,415	19,280	15,400
Exports to U.S.[2]	0.8	0.2	[3]0.5
Total Imports (FOB)[1]	24,975	24,000	17,800
Imports from U.S.[2]	749	616	[3]169
Trade Balance	−6,560	−5,720	−2,400
Current Account[1]	−10,300	−5,000	−5,000

N/A— Not available.
[1] Estimate.
[2] Year ending December 31.
[3] January-August, 1994.

1. General Policy Framework

In 1994, Iranian President Rafsanjani's political opponents blocked and even rolled back several important elements of his economic reform program. Military spending continued to burden the economy. Reschedulings of $10 billion of Iran's official debt brought temporary relief, but the country is finding it difficult to obtain significant new credits and may face a new debt crisis.

Economic uncertainty and parliamentary opposition to economic liberalization resulted in the postponement of the regime's second Five-Year Plan (FYP), which was originally to have gone into effect in March, 1994. The government now states that it will have the FYP in place by March, 1995. In late 1994, senior government and parliamentary figures were highlighting features of the new FYP which emphasizes social justice concerns over economic liberalization.

Rafsanjani's administration had to retreat from one of its hardest-fought victories of 1993—the unification of exchange rates—when the Iranian rial plunged from an open market value of about 1,400 to the dollar in March 1993 to over 2,500 to the dollar in the spring of 1994.

The large influx of imports which came with postwar reconstruction after 1989 abated due to the 1993 credit crunch. The government's efforts to improve its credit position have led to a significant import compression.

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 economic ties with the United States. Despite these problems, there is a modest trade relationship; U.S. exports to Iran peaked at $749 million in 1992. However, because of its economic problems, Iran's purchases of U.S. products have been steadily declining since then.

2. Exchange Rate Policies

Iran moved from its former three-tiered system of legal exchange rates to a unified exchange rate of on March 20, 1993. However, because of public outcry at the declining international purchasing power of the rial, the government intervened throughout the summer of 1993 in an effort to hold the exchange rate at about 1,700 rials to the dollar, using up billions of dollars in scarce foreign exchange. When, in

the spring of 1994, the rial dropped as low as 2,800 to the dollar, the government reimposed complicated import controls which amount to foreign exchange rationing for most transactions. There has also been a return to government-subsidized preferential exchange rates for the import of selected consumer goods, another drain on scarce foreign exchange resources.

3. Structural Policies

The banking, petroleum, transportation, utilities, and mining sectors are nationalized. The government has announced its intent to begin limited privatization in banking and finance, but so far has not been able to implement its plans. At the time of the revolution, radicals were put in charge of bonyads (foundations) which inherited much wealth confiscated from the former elite. They retain control of many large industrial and trading enterprises, and are politically powerful opponents of privatization.

The petroleum sector is the economy's traditional mainstay. Iran's current maximum sustainable capacity is around four million barrels per day (mbd), according to the government. Iran's OPEC quota is 3.6 mbd. Capacity is constrained by the natural decline in the productivity of major onshore fields, delays in implementing necessary gas re-injection projects, and a shortage of experienced personnel. Without large infusions of capital, the oil sector may have difficulty maintaining current production, much less achieving the government's publicly-stated goal of five million barrels per day (mbd) of sustainable capacity. .

The government did not meet its projected petroleum revenues in 1994 due to soft oil prices. The government sells petroleum products domestically at about 10 percent of the world price, thus cutting exports and encouraging over-consumption.

4. Debt Management Policies

During the eight-year war with Iraq, Iran contracted almost no external debt. From 1988 through 1992, Iran 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.

The credit crunch of 1993–94 crippled Iran's trade. A series of bilateral reschedulings with official creditors in 1994 did not include significant new credits. 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 Nonproliferation 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 October 29, 1987. Exceptions to the embargo of imports of Iranian oil are allowed in connection with payments to U.S. claimants awarded by the U.S.-Iran Claims Tribunal at The Hague. U.S. sanctions have had a deleterious effect on U.S. exports to Iran. However, Iran's current financial problems 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. *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. However, it is unlikely that the government would tolerate any strike deemed to be at odds with its economic and labor policies.

b. *Right to Organize and Bargain Collectively.*—In practice, the right of workers to organize independently and bargain collectively cannot be documented. It is not known whether labor legislation and practice in the export processing zones differ in any significant respect from the law and practice in the rest of the country. No information is available on the mechanism used to set wages.

c. *Prohibition of Forced or Compulsory Labor.*—Section 273 of the Iranian Penal Code provides that any person who does not have definite means of subsistence and who, through laziness or negligence, does not look for work may be obliged by the government to take suitable employment. This provision has been frequently criticized by the Committee of Experts (COE) of the International Labor Organization (ILO) as contravening ILO Convention 29 on forced labor. In its 1990 report, the COE noted an indication by the government in its latest report to the Committee that Section 273 had been abolished and replaced for a trial period by a new provision approved by the Parliament. The Iraqi 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 of Iraq 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—1993

[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/Insurance/Real Estate		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. This embargo remains in effect unaltered.

U.S. sanctions against Iraq incorporate all the measures contained in the numerous United Nations Security Council Resolutions passed and still in effect since the invasion. These resolutions forbid member states, companies and individuals from undertaking any economic intercourse with the Iraqi government or with private Iraqi firms, except in regard to goods deemed by the U.N. Sanctions Committee to be of a humanitarian nature.

Between January and August of this year, the UN Sanctions Committee was notified of $2 billion worth of food planned for shipment to Iraq, and $175 million worth of medicine. During the same period, the Committee approved shipments of $2 billion worth of other items deemed to be for essential civilian needs.

Iraq's Ba'athist regime engages in extensive central planning and management of industrial production. Small-scale industry and services and most agriculture are in private hands. While the country has extensive arable land, it is historically a net food importer. The economy is dominated by oil, which traditionally provided 95 percent of foreign exchange earnings.

The economy, already battered by the impact of three years of sanctions, apparently took a drastic turn for the worse during 1994. Reliable statistics are not available, but anecdotal evidence points to an increasingly desperate economic situation. The standard of living has been reduced to at least half of its pre-war level.

In late September, the government announced a 40 percent cut in government-provided rations of basic foodstuffs such as cooking oil, flour, and sugar. These rations no longer provide minimum daily caloric requirements.

Rampant inflation has made it difficult for the average Iraqi to turn to the open market to find the products now restricted under rationing. Again, reliable statistics are not available, but it is reported that the cost of basic food items has far outstripped salaries. Government troop movements to the Kuwaiti border in October led to a temporary doubling of food prices.

Trade unions independent of the government do not exist in Iraq. Workers in private and mixed enterprises—but not public employees— have the right to join local union committees, which are part of larger trade union federations. At the top of this pyramid is the Iraqi General Federation of Trade Unions, linked to the ruling Ba'ath party and utilized to promote party principles and policies. The right to strike is heavily circumscribed by the Labor Law of 1987, and no strike has been reported over the past two decades.

The value of the Iraqi dinar has plunged against the dollar in the past year. In late 1993, the dinar traded on the black market at a rate of approximately 100 dinar to the dollar. In late 1994 the official rate was approximately 500 dinar to the dollar, and on the black market it traded as low as 650–750 dinar to the dollar after the October troop movements. Many consumer goods and basic necessities, including medicine, are available on the black market at highly inflated prices.

The seriousness of the economic situation is illustrated by the increasing number and severity of punishments for economic crimes. Apparent hoarding of crops has led the government to withhold seeds and fertilizer from farmers who fail to bring their crop to market. Farmers who fail to cultivate their land altogether have their land confiscated. Capital punishment has been decreed for those smuggling cars and trucks from the country and harsh penalties have been levied on currency traders and "profiteers." Merchants have been executed for hoarding and fixing prices.

Since the end of Desert Storm, it appears Iraq has been able to rebuild most of its infrastructure in telecommunications, transportation, and power, as well as oil production. This reconstruction has been concentrated in areas which support the government and which are visible to outsiders. The depth and permanence of much of this reconstruction is difficult to estimate, since it relied heavily on cannibalization and the drawdown of spare parts. Shortages of inputs and spare parts have shut down much of the country's industry.

United Nations Security Council Resolutions 706 and 712 (1991) authorized the export of $1.6 billion of Iraqi petroleum during a six-month period. Proceeds of the sale would go to a United Nations escrow account, which would be used to purchase humanitarian supplies for the Iraqi population, as well as fund other programs mandated by the U.N. The government of Iraq has refused to implement these resolutions.

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 oil trade for humanitarian supplies. 4. Reliable economic statistics are unavailable, and those produced by the Government of Iraq cannot be considered accurate.

ISRAEL

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1990 prices) [2]	58,872	60,878	75,190
Real GDP Growth (pct.)	6.7	3.4	5.0
GDP (at current prices) [2]	63,962	73,544	85,716
By Sector:			
Agriculture/Forestry/Fishing	1,791	1,765	1,714
Construction/Electricity/Water	6,460	6,619	7,029
Industry	13,490	15,812	18,686
Ownership of Dwellings	4,478	5,369	6,429
Finance/Business Services	17,001	13,679	16,286
Government/Health/Education	14,391	16,621	19,286
Net Exports of Goods & Services	20,779	22,143	25,000
Real Per Capita GDP (USD)	11,993	13,820	15,727
Labor Force (000s)	1,860	1,960	2,020
Unemployment Rate (pct.)	11.2	10.0	7.8

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Money and Prices (annual percentage growth):			
Money Supply (M2)	26	47	N/A
Base Interest Rate[3]	11.3	11.9	N/A
Personal Savings Rate	19.6	17.7	N/A
Wholesale Price Index	9.1	7.2	9
Consumer Price Index	9.4	11.2	14.0
Exchange Rate (USD/shekel)	2.5	2.8	2.98
Balance of Payments and Trade: (billions USD)			
Total Exports (FOB)[4]	12.48	14.08	16.20
Exports to U.S.	4.0	4.6	5.2
Total Imports (CIF)[4]	18.56	20.24	22.50
Imports from U.S.	3.2	3.6	4.2
Aid from U.S.	3.0	3.0	3.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[3]	24.31	22.97	25.89
Debt Service Payments (paid)	1.36	1.40	1.6
Gold and Forex Reserves[4]	6.3	5.6	6.5
Trade Balance[4]	−5.09	−5.05	−6.3
Trade Balance with U.S.	0.8	1.0	1.0

N/A—Not available.
[1] 1994 Figures are all estimates based on available monthly data in October 1994.
[2] GDP at factor cost.
[3] Figures are actual, average annual rates.
[4] Merchandise trade.
Sources: Bank of Israel; Central Bureau of Statistics; Ministry of Finance.

1. General Policy Framework

Israel is in the midst of a four year economic expansion, with five to six percent growth projected to continue throughout the decade. Economists estimate that Israel's economy will grow by over 5 percent in 1994. Inflation, likely to reach 14 percent on an annualized basis, has replaced unemployment as the biggest cause for concern in the economy. Increased inflation is driven by soaring housing costs, higher than anticipated private consumption, and costly public sector wage agreements. The best economic news is unquestionably Israel's success in reducing the unemployment rate from over 11 percent in 1992 to approximately 7.5 percent in the third quarter of 1994. Given changes in the composition of the labor force due to the recent wave of immigration, the rate of unemployment may be approaching what some economists believe is Israel's normal unemployment rate.

An increase in imports relative to exports has caused the balance of payments deficit to widen in the first half of 1994. Increases in imports continue to outstrip export growth, despite 10 percent growth in exports in 1994. The import bulge consists of industrial inputs (which may lead to increased production), fuel, diamond and ship and airplane imports, and continued increases in Israeli tourism abroad. This trend of increased imports moderated in the third quarter. The trade deficit increased by 28 percent during the first nine months of 1994, in comparison to the same period in 1993. The Government of Israel estimates that the balance of payments deficit for 1994 will exceed 2 billion dollars.

The United States continues to be Israel's single largest trading partner. Although the U.S. consistently runs a trade deficit with Israel, U.S. sales of goods and services to Israel are expanding. In 1993, exports of U.S. goods and services to Israel went up by 12 percent, and this trend continued in the first nine months of 1994. Total bilateral trade is estimated to approach 10 billion dollars in 1994, with Israel accruing a trade surplus with the United States of nearly 1 billion dollars. The U.S.-Israel Free Trade Area Agreement will be completely phased-in as of January 1, 1995, with all tariffs dropping to zero. Israel retains non-tariff barriers for sensitive areas like agriculture and processed food products.

Israel's 1993 budget deficit equaled 2.5 percent of GDP. 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 was reduced by a set percentage every year. In 1993, the government revised the legislation to re-

place mandated reductions in future years with a general requirement that each year's planned budget deficit target be less than that of the previous year. In 1994, the budget deficit is expected to reach 3 percent of GDP.

Total government debt is increasing, due primarily to borrowing under the U.S. Loan Guarantee Program. While Israel lowered several purchase taxes, corporate income tax and income tax rates for the middle class, in 1994 the tax burden rose slightly to 41 percent due to bracket creep, increased private consumption, and revenues from purchase taxes on sales of homes, whose prices continue to rise ahead of inflation. Government policies such as continued capital market reforms and shifting national priorities from housing construction and roads in the Occupied Territories to investment in infrastructure and human capital within Israel have laid the groundwork for continued growth.

Foreign investment is likely to increase as the peace process advances and the Arab League Boycott weakens. In the course of 1994, Jordan, Morocco, Tunisia and other Arab states extended new ties to Israel. The Gulf Cooperation Council (GCC) announced the discontinuance by its members of the secondary and tertiary aspects of the Arab League Boycott.

2. Exchange Rate Policy Framework

Under the "diagonal" exchange rate 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 foreign 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, up for reelection in 1996, has made some limited progress on reducing government intervention in the economy. The Rabin government has achieved more in the areas of capital market reforms and taxation, but has barely made a dent in the privatization of large government-owned companies.

Privatization efforts stalled in 1994. In 1993, the government of Israel raised USD 1.24 billion through privatization. In the first nine months of 1994, by comparison, the government generated only 50 million dollars through privatization. Even if scheduled sales are concluded of limited shares in the government-owned Shekem retail chain and Israel Chemicals Limited (ICL), and sale of the Housing and Development Corporation and the Mizrachi Bank are completed by the end of 1994, revenues will still fall far short of the 1993 levels (USD 1.24 billion) and the Government of Israel's own goals for 1994. However, Israeli officials are gearing up for 1995, to lay the groundwork for USD 1.5 billion worth of sales.

Ten government-owned firms account for 90 percent of earnings of government-owned companies: El Al, Bezek (the national telecommunications firm), Israel Oil Refineries, Israel Aircraft Industries, Israel Military Industries, Israel Electric Corporation, Israel Shipyards, Zim (the national shipping company), and the Housing and Development Corporation. Bezek, ZIM, Israel Shipyards and El Al are all targets for partial or substantial sale in the next twelve to fifteen months.

Capital market reform and liberalization of foreign exchange movements initiated in 1987 have continued, sharply reducing government involvement in the allocation of capital and integrating the Israeli banking system more closely with international financial markets. Recent liberalizations include: elimination of constraints on private sector investment in real assets abroad, allowing private sector investment in foreign financial assets as well as long term savings funds to invest in securities overseas, loosening of foreign currency restrictions on Israeli citizens traveling abroad, and opening the Israeli capital market to foreign corporations.

The overall tax burden for Israelis has increased over the last few years, largely due to bracket creep. The government announced reductions in indirect taxes and income taxes in 1994, but initiated a new capital gains tax on stock exchange earnings effective January 1, 1995. In addition, new taxes to pay for health and pension fund reforms may be implemented in 1995. Tax levels are higher than rates in Japan or the U.S., but roughly comparable to European standards. A U.S.-Israel double taxation treaty went into effect January 1, 1995.

4. Debt Management Policies

Israel's net external debt increased in 1994 (8.9 percent in first half of the year), due to increased borrowing under the Loan Guarantee Program and increased deposits by foreigners in Israeli banks. The government's foreign debt reached $21.4 billion dollars or 79 percent of total external debt. Israel's debt to GDP ratio rose to 27 percent, up from 26 percent in 1993.

5. Significant Barriers to U.S. Exports

All duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area (FTAA) Agreement as of 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, especially in sensitive sectors like agriculture and processed food products.

Although Israel has liberalized imports of all bulk agricultural commodities except 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. beef, plywood, poultry, and dairy products.

In addition to these restrictions, the Government of Israel has two unique forms of protection for locally produced goods. The first is Harama, or uplift, applied at the pre-duty stage of import, and the second is TAMA, a Hebrew acronym standing for additional quota percentage, which applied after imposition of duty but before any assessment of purchase taxes.

Harama is a pre-duty uplift applied to the CIF value of goods to bring the value of the products to an acceptable level for customs valuation. Israel calculates import value according to the Brussels Definition of Value (BDV), a method which tolerates uplifts of invoice prices. For purposes of calculating duty and other taxes, the Israeli Customs Service arbitrarily uplifts by two to five percent the value of most products which exclusive agents import, and by 10 percent or more the value of other products. Israel has agreed to use only actual wholesale price for large importers after 1995. Israel is not a signatory to the GATT Valuation Code.

TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product.

In addition, purchase taxes that range from 25 to 95 percent are applied on goods ranging from automobiles to some agriculture and food items. The Government of Israel eliminated or reduced purchase taxes on many products in 1994, including consumer electronics, building inputs, and office equipment. Where still remaining, purchase taxes apply to both local and foreign products. However, when there is no local production, the purchase tax becomes a duty equivalent charge.

Israel has reduced the burden of some discriminatory measures against imports. 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. Implementation of this promise has been slow. Enforcement of mandatory standards on domestic producers can be spotty and in some cases (e.g. refrigerators, carpets, and packaging/labeling for food items) standards are written so that domestic goods meet requirements more easily than imports. The Government of Israel is still reviewing the issue of package size standards to facilitate entry of some standard U.S. units. Israel has agreed to notify the United States of proposed new, mandatory standards to be recorded under the GATT.

The Standards Institution of Israel is proposing a bilateral Mutual Recognition Agreement of Laboratory Accreditation with the United States that could result in the acceptance of U.S. developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements.

The Israeli government actively solicits foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and are eligible for incentives for designated "approved" investments in priority development zones. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. About 100 major U.S. companies have subsidiaries in the Israel and some 170 Israeli companies have subsidiaries in the United States. Investment in regulated sectors, including banking, insurance, and defense industries, requires prior government approval.

Israel has one free trade zone, the Red Sea port city of Eilat. In addition to the Eilat Free Trade Zone, there are three free ports: Haifa (including Kishon), Ashdod, and Eilat. Enterprises in these areas may qualify for special tax benefits, and are exempt from indirect taxation.

Israel is a signatory to the Uruguay Round Procurement Code, which provides wide coverage of Israeli government entities to enable more open and transparent

international tendering procedures. Legislation establishing the loan guarantee program envisions a substantial increase of U.S. exports of investment goods to Israel, as Israel makes use of the loan guarantee funds. To this end, the Israeli government provides information to the USG on existing and proposed tenders issued by government entities valued at over $50,000.

The Government of Israel frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises and municipal authorities. Failure to enter or fulfill such industrial cooperation agreements (investment, codevelopment, coproduction, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, U.S. firms may still encounter requests to enter into offset arrangements. Israeli government agencies and state-owned corporations not covered by the Uruguay Round Government Procurement Code follow this "Buy Israel" policy to promote national manufacturers.

Recent legislation codified and strengthened a 15 percent cost preference accorded domestic suppliers in many Israeli public procurement purchases, although the legislation explicitly recognizes the primacy of Israel's bilateral and multilateral procurement commitments. This preference can reach as high as 30 percent for domestic suppliers located in priority development areas.

In addition to its GATT multilateral trade commitments and its FTAA with the U.S., Israel also has FTAs with the European Union (EU) and European Free Trade Area (EFTA) states. With respect to all other countries, Israel substituted steep tariffs for non-tariff barriers previously applied to trade, and has gradually reduced these tariffs. The seven-year phase-in of Israel's import liberalization program has diluted, to some extent, U.S. advantages under the U.S.-Israel FTAA. As EFTA countries accede to the European Union, Israel's EFTA FTAA will be superceded by the E.U.-Israel Agreement, currently being renegotiated in an attempt to broaden and deepen the 1975 accord. Israel has also begun negotiations of FTAAs or other trade agreements with Canada, Turkey, Jordan, Egypt, and individual Central and Eastern European states.

6. Export Subsidies Policies

The U.S.-Israeli FTAA included agreement 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. anti-dumping/countervailing duty cases. In 1994 the United States Government cited Israeli subsidy of butt-weld pipe fittings in an anti-dumping/countervailing duty investigation. Israel has been a member of the GATT Subsidies Code since 1985.

The Israeli Parliament passed legislation in May 1994 authorizing creation of free processing zones (FPZs). Qualifying companies operating in the (still undetermined) FPZs will be exempt from direct taxation for a twenty-year period, and imported inputs will not be subject to import duties or tariff or most health and safety regulations generally in effect throughout Israel. Companies will also be exempt from collective bargaining and minimum-wage requirements, although subject to other labor requirements. The legislation was originally intended to promote investment in export-related industries, but the wording of the legislation as passed does not limit applicant companies to exporters or providers of services to overseas clients. Accordingly, the FPZs will not violate the U.S.-Israeli FTAA export subsidies commitment.

7. Protection of U.S. Intellectual Property

Standards of Intellectual Property Rights (IPR) 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 has been reduced to some extent as legal cable services become available throughout the country. Legislation is currently being drafted to improve copyright protection in cable television broadcasts. This law provides for binding arbitration as the appropriate remedy for disputes over broadcast rights. Israel is a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

Protection for software has been upgraded, and the two major movie distribution chains generally comply with copyright requirements. The Government of Israel

hopes to pass a general overhaul of the copyright law in early 1995 to correct weaknesses in status quo protection of IPR. Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and nonworking patents. Israel is a member of the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Berne Convention for the Protection of Literary and Artistic Works. Further, as a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Israel is in the process of making all legal and regulatory revisions necessary to meet all GATT TRIPS requirements.

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. In 1994 about 70 percent of the workforce, 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. Non-Israeli workers, including the approximately 57,000 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 workplaces. The right to strike is exercised regularly. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively.*—Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting anti-union discrimination, the Basic Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the Knesset has passed legislation authorizing creation of free processing zones, as discussed in section 6.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. *Minimum Age for Employment of Children.*—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 inadequate, especially in smaller, unorganized workplaces.

e. *Acceptable Conditions of Work.*—Legislation in 1987 established a minimum wage at 45 percent of the average wage, calculated periodically and adjusted for cost of living increases. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the Labor Inspection Service enforces labor, health, and safety standards in the workplace. By law, maximum hours of work at regular pay are 47 hours per week (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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	17	
Electric & Electronic Equipment	834	
Transportation Equipment	3	
Other Manufacturing	(1)	
Wholesale Trade		25
Banking		0
Finance/Insurance/Real Estate		202

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
Services	133
Other Industries	(1)
TOTAL ALL INDUSTRIES	1,660

[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 U.S. dollars unless otherwise noted]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1985 prices) [2]	3,236.1	3,194.5	3,370.2
Real GDP Growth (pct.)	11.2	5.8	5.5
GDP (at current prices) [2]	4,851.3	5,034.0	5,523.0
By Sector:			
Agriculture	330.6	342.9	N/A
Energy/Water	106.4	105.4	N/A
Manufacturing	610.1	632.0	N/A
Construction	231.0	252.3	N/A
Rents	11.1	11.2	N/A
Financial Services	770.3	819.6	N/A
Other Services	141.9	144.8	N/A
Government/Health/Education	832.5	901.3	N/A
Net Exports of Goods & Services	−1,732.2	−1,648.2	−1,960.0
Real Per Capita GDP (1985 base)	807.0	770.0	802.2
Labor Force (000s)	706	712	760
Unemployment Rate (pct.)	14	13	11
Money and Prices (annual percentage growth):			
Money Supply (M2)	12.8	9.3	6.0
Base Interest Rate [3]	8.5	8.5	8.5
Personal Saving Rate	7.0	8.0	8.0
Retail Inflation	8.2	4.0	4.0
Wholesale Inflation	4.8	0.7	2.0
Consumer Price Index	100.0	103.3	107.3
Exchange Rate (USD/JD)			
Official [4]	1.5	1.4	1.4
Balance of Payments and Trade:			
Total Exports (FOB) [5]	950.6	967.8	1,100.0
Exports to U.S.	6.3	10.2	11.3
Total Imports (CIF) [5]	3,321.0	3,435.1	3,550.0
Imports from U.S.	369.3	436.1	470.0
Aid from U.S.	50.0	90.0	120.0
Aid from Other Countries	206.1	198.8	347.0
External Public Debt	7,804.7	7,750.1	6,500.0
Debt Service Payments (paid)	490.2	612.6	400.0
Gold and Foreign Exch. Reserves	1,501.7	1,337.3	2,155.7
Trade Balance	−2,280.4	−2,485.3	−2,450.0
Trade Balance with U.S.	−363.0	−425.9	−458.7

N/A—Not available.
[1] 1994 figures are estimates based on IMF targets.

[2] GDP at producers' prices.
[3] Average rediscount rate.
[4] Actual exchange rate.
[5] Merchandise trade.

1. General Policy Framework

The Jordanian economy experienced sustained growth in domestic output in 1993–94. GDP increased by 5.8 percent in 1993, with the rate of investment to GDP stabilizing at 30 percent. For 1994, the IMF forecasted GDP growth at 5.5 percent. The construction sector has continued to dominate economic activity, while the financial, manufacturing, agricultural and trading sectors have also expanded. Overall, the Jordanian economy responded positively to the structural adjustment program formulated by the Government of Jordan and the IMF in 1992.

The government is beginning to adjust its economic policies in response to recent progress in the peace process. It is in the second year of implementation of a five-year Economic and Social Development Plan for 1993–97, but is now considering amendments to account for Jordan's peace treaty with Israel and plans for cooperation on economic issues with the Palestinian Authority.

In May 1994, the government entered into a three-year Extended Fund Facility with the IMF that requires a variety of sectoral policy reforms. Under this program, the government projects annual GDP growth will reach 5.5 percent, the annual inflation rate will fall below five percent, the current account deficit will decline to 9.7 percent of GDP and Central Bank reserves will rise to the equivalent of 2.4 months of imports, or 665 million dollars. To sustain development and reach these targets, the government has announced that increased public and private sector savings and sustained investment levels are key priorities.

In January 1994, the government announced its intention to adopt an agenda of economic reforms affecting the legal environment of doing business in Jordan. The government plans to introduce a new investment law, amend the customs and income tax laws, harmonize the General Sales Tax with customs duties and simplify tariff schedules. In addition to reforming the civil service system, the government also plans to limit the growth of the public sector by freezing hiring during 1995.

As for monetary policy, the Central Bank of Jordan announced in July that it would begin exercising indirect control over the banking system through the use of dinar-denominated certificates of deposit. It also has encouraged holdings in dollar-denominated CD's by offering interest at two points above the London Interbank Offered Rate (LIBOR), a move intended to enhance reserves and discourage capital flight. The Central Bank also plans to streamline its handling of deposit facilities and credits. By early 1995, it will eliminate commercial bank deposit requirements and no longer compel local banks to adhere to credit/deposit ratios. The Central Bank has not fully eliminated the double reserve requirement on interbank deposits, but has announced its intention to simplify its oversight of this market.

2. Exchange Rate Policies

The Central Bank regulates foreign currency transactions in Jordan and sets the banking system exchange rate. It also restricts moneychangers to dealing within a specified range of buying and selling rates. On October 12, 1994, the average exchange rate was one dinar equals USD 1.43, one cent lower than the average rate in 1993. The Central Bank has announced that it will not float the dinar despite its application to the IMF for assistance in implementing a system for partial dinar convertibility. In negotiations between the Jordanian government and the Palestinian Authority, the Central Bank has sought to assure West Bank residents holding dinars of the currency's continued stability.

3. Structural Policies

Pricing Policies: In general, market forces set prices. However, the government imports and subsidizes the prices of basic foodstuffs such as cereals, sugar, milk and frozen meat. It also controls the prices of other non-strategic commodities such as automobile spare parts, construction materials, household cleaning materials and food and beverage served in restaurants. The Ministry of Supply may intervene and set a maximum price ceiling on any consumer commodity. It operates a ration card system for consumer purchases of sugar, rice and milk for citizens whose monthly income is less than 715 dollars. Subsidized prices and controls have no impact on Jordanian imports of U.S. food staples. The Ministry of Supply has submitted a proposal to the Cabinet to eliminate price controls on non-subsidized, non-strategic commodities and limiting food subsidies to employees in the civil service and the military.

Tax Policies: The government remains dependent on customs duties and import taxes as its primary source of domestic revenue, which it collects on all imports. To stimulate export production, import tariffs are low for many raw materials, machin-

ery and semi-finished goods. Although high tariff rates are imposed on many consumer and luxury goods, tariff reducing measures have recently been taken. In November, for instance, the government announced a duty reduction on automobiles, previously ranging from 110 to 310 percent, to 44 to 200 percent. Also announced were tariff reductions to 50 percent on numerous consumer products.

In recent years, customs collections have yielded a lower percentage of total government revenues as other taxes have assumed greater importance. In June, 1994 the government enacted a general sales tax to replace a previously-imposed consumption tax. The sales tax applies to all durable and consumer goods except food staples and health care and education-related products. An income tax is levied at a maximum marginal rate of 40 percent for all businesses. The marginal tax rate on individual income is capped at 55 percent, with high personal, educational and medical deductions permitted. Interest, dividend and capital gains earnings are exempt from taxation, except for income earned by financial institutions. In addition, income derived from agriculture is exempt. The government plans to submit changes to the income tax law to parliament in November, 1994 that will extend its coverage to capital gains in property and stock market transactions and limit total liability to 35–40 percent of income.

Regulatory Policies: Jordanian regulations pertaining to the licensing and operations of regional offices of foreign firms are fairly clear. However, local American businessmen complain of difficulties with customs authorities regarding tariff exemptions and licensing. Potential investors note that cumbersome and time consuming procedures delay registration and government approval of their projects. In August 1994, King Hussein announced the formation of a Royal Development and Modernization Commission under the leadership of Crown Prince Hassan. One of the Commission's stated goals is the facilitation of foreign investment through the elimination of major regulatory and bureaucratic impediments and disincentives. In one of its first recommendations, the Commission has proposed the establishment of a centralized office for foreign investment applications.

4. Debt Management Policies

Jordan's external debt as of December 1, 1993 stood at 6.8 billion dollars, about 130 percent of GDP. A week later, the government reached agreement in rescheduling its $895 million commercial debt under terms finalized with the London Club. Commercial creditors agreed to sell up to 35 percent of principal with a discount of 35 percent, on which Jordan would pay 50 percent of outstanding interest. The rest of the principal (at least 65 percent) was converted into 30-year par-value bonds guaranteed by U.S. zero interest coupon bonds. Under this option, Jordan agreed to immediately pay ten percent of outstanding interest while converting the remainder into 12-year dollar bonds payable in 19 semi-annual installments after a three-year grace period. The London Club agreement helped Jordan reduce 60 percent of its debt to the Club, or 12 percent of its total external debt.

Following successful negotiations in June 1994, Jordan and its bilateral creditors in the Paris Club reached a $1.2 billion debt rescheduling agreement covering principal and interest payments falling due between 1994 and 1997 in addition to arrearages from the first half of 1994.

Despite its success at rescheduling its foreign debt, the Jordanian government continued to pressure its bilateral creditors for debt forgiveness. After the Washington Declaration of King Hussein and Prime Minister Rabin of Israel in July 1994, the United States agreed to write off $705 million of Jordanian debt over a three-year period. An agreement was signed in September 1994 to forgive the first tranche of $220 million. Other bilateral creditors have followed the United States' example. The United Kingdom, Germany and France agreed to write off $90 million, $53 million and $4.5 million, respectively. Even with these commitments, Jordan's total foreign debt remains above five billion dollars, one of the highest in the world on a per capita basis.

5. Significant Barriers to U.S. Exports

Import Licenses: The 1993 Import and Export Law abolished import licensing requirement. But due to the lack of implementing regulations, the Jordanian Customs Department continues to require licenses on all imports except for certain exemptions for agricultural commodities and imports by the royal family and government agencies. The continued need for import licenses, which are tied to the issuance of foreign exchange permits controlled by the Central Bank of Jordan (CBJ), hampers the free flow of trade between the United States and Jordan.

Standards, Testing, Labeling, and Certification: All imports to Jordan are subject to the approval of the Standards and Measures Department. Foodstuffs and medicines must undergo laboratory testing and certification. Local traders who regularly

import from the United States complain that Jordanian testing standards for consumer and durable items are not fully transparent. They also complain that they are routinely fined for importing U.S. products that contain parts and components made outside the U.S.

Investment Barriers: There are no restrictions on the degree of foreign ownership in manufacturing enterprises. However, foreigners may not own more than 49 percent of hotels, restaurants, banks and businesses engaged in trading and transport. Although the government officially encourages foreign investment, an application requires prior approval by the Council of Ministers, which is often a lengthy process. To facilitate foreign investment, the Jordan Investment Promotion Department was separated from the Ministry of Industry and Trade and made an independent agency in January 1994. The Jordan Investment Corporation, a government agency that manages the pension fund of civil service employees, encourages foreign participation in projects that it promotes.

Government Procurement Practices: All government purchases, with a few exceptions, are made by the General Supplies Department of the Ministry of Finance. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through their agents. While Jordan's procurement law does not permit non-competitive bidding, the law does not prohibit a government agency from pursuing a selective tendering process. In addition to the review committees at the Central Tenders and the General Supplies Departments, the law gives the tender issuing department the right to accept or reject any bid while withholding information on its decisions. Foreign bidders may seek recourse only through the Jordanian legal system. In response to a recommendation of the Royal Development and Modernization Commission, a higher procurement commission was created in October 1994 to monitor the procedures of the Supplies Department.

Customs Procedures: Businessmen often comment that customs procedures are the greatest impediment to doing business in Jordan. While the government has often promised to reform its customs regime, overlapping areas of authority and numerous signature clearance requirements remain in place. Actual commodity appraisal and tariff assessment practices commonly differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions are conflicting. To secure tariff exemptions, businessmen must document that imported raw materials will be used in export production, and that the final product will have at least a 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 government or government-approved projects. Foreign construction companies operating alone or with Jordanian partners may apply for this temporary admission status. The government plans to present amendments to the customs law to Parliament in November 1994. These will delegate greater authority from the Minister of Finance to the Customs Department director, giving him increased discretionary powers to investigate violations and order confiscations.

6. Export Subsidies Policies

Under Central Bank regulations, 70 percent of profits earned from exports is exempted from corporate income tax, with a maximum exemption of 30 percent of a company's total income. Excluded are exports under bilateral trade protocols and phosphate, potash and fertilizer exports. The Central Bank has also implemented other export financing measures, such as reducing interest rates on advances from eleven to six percent, reducing the value-added requirement for financing from 40 percent to 25 percent, excluding export advances from outstanding lines of credit, offering long-term export financing for up to five years, and permitting the Industrial Development Bank to offer export financing loans on machinery imports for 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 (WIPO) and a party to the Paris Convention for Protection of Industrial Property. Domestically, Jordan's copyright law, passed by Parliament in 1992, is the country's only recent effort to extend legal protection to foreign intellectual property. The Trademark and Patents and Designs Laws have not been amended since the early 1960's. The Copyright 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 abroad under licensing agreements approved by the Ministry of Indus-

try and Trade. However, only the intellectual property of Jordanian and foreign authors who register their works inside the kingdom are protected by Law. Infringement of U.S. intellectual property rights is not subject to any penalties.

The government has not yet begun to enforce its copyright law. The pirating of audio and video tapes for commercial purposes is a widespread practice, over which the government exercises no control. Pirated books are also sold in Jordan, although few, if any, are published within the country. Although the government announced that it would issue strict measures on copyright protection in January 1994, it has issued only procedural notes for existing regulations thusfar.

Patents (product and process) must be registered at the Ministry of Industry and Trade to receive protection. A foreign company may register a patent by sending a power of attorney to a local patent agent or lawyer. Registration may be renewed once for a period of 14 years. Protection under the law is only available to domestic and foreign patents that are registered in Jordan. Infringement of a foreign patent, such as a manufacturing process for a chemical compound, is considered to be a violation by Jordanian courts only if it is proved to be an exact duplication.

New Technologies: Computer software piracy is rampant in Jordan's small, but growing, computer market. The Government of Jordan has announced that it will give priority to protecting computer software copyrights, but has not yet taken any action or issued clear policy directives.

There is no agreement between the United States and Jordan concerning the protection of U.S. exports of intellectual property. Although the impact of this lack of protection may not have been severe enough to cause losses to U.S. firms, it has created lost opportunities.

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 dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively.*—GFJTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the Ministry fails to act within two weeks, the union may strike. Arbitration is the usual means of resolving disputes, and labor actions are generally low-key and do not lead to strikes.

c. *Prohibition of Forced Compulsory Labor*

Compulsory labor is forbidden by the Jordanian constitution.

d. *Minimum Age of 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. There is no comprehensive minimum wage in Jordan. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Working conditions and minimum wage for foreign workers are stipulated in bilateral treaties, but are not strictly enforced or consistently adhered to. Jordan also has a workers' compensation law and a social security system which cover companies with more than five employees. A new draft labor law is under consideration, but does not appear to be a high priority.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount
Petroleum	[1]
Total Manufacturing	[2]

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—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	([2])	
Wholesale Trade		0
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		0
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.

KUWAIT

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (pct.)	76.3	22.6	5.0
GDP (at current prices)[2]	18,762	23,000	12,076
By Sector:			
Agriculture	46.0	71.0	39
Energy/Water	− 340.0	323.7	178
Manufacturing	723.8	761.3	418
Construction	703.4	738.4	355
Rents	N/A	N/A	N/A
Financial Services	755.0	796.0	438
Other Services	N/A	N/A	N/A
Government/Health/Education	5,743.0	5,858.0	3,222
Net Exports of Goods & Services	−2,723	1,720	946
Real Per Capita GDP (USD)	13,420	15,674	17,500
Labor Force (000s)	600	735	745
Unemployment Rate (pct.)	0.5	0.5	0.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	−0.58	5.7	2.19
Base Interest Rate (pct.)	7.5	6.65	6.17
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation	5.0	5.0	3.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index[3]	110	110	110
Exchange Rate (USD/KD)	3.40	3.32	3.40
Balance of Payments and Trade:			
Total Exports (FOB)	6,693	10,554	5,400
Exports to U.S.	310	2,003	822
Total Imports (CIF)	7,239	7,052	3,500
Imports from U.S.	1,327	1,009	498

Key Economic Indicators—Continued

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

	1992	1993	1994 [1]
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	5,500	5,500	6,216
Debt Service Payments (paid)	N/A	N/A	60
Gold and Foreign Exch. Reserves	3,104	4,034	3,847
Trade Balance	−546	3,502	968
Trade Balance with U.S.	−1,017	994	324

N/A—Not available.
[1] 1994 figures are for the first and second quarters only.
[2] For first half of year, annual rate would be USD 24,152. These statistics are based on the Central Bank of Kuwait's "The Economic Report 1990–1992" and "The Economic Report 1993." These reports reflects a number of post-liberation revisions and additions in statistics. Hence, previous statistical series should be revised to reflect current data. The estimates for the first two quarters of 1994 are U.S. Embassy estimates based on Central Bank of Kuwait data and general trends in the economy. The publications cited are available from the Central Bank of Kuwait.
[3] May 1990 equals 100—actually the CBK domestic price index.

1. General Policy Framework

Kuwait is a politically stable emirate where rule of law prevails. The press is free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent citizenry who benefit from a generous welfare state. In 1989, Kuwait's population was 2.3 million. Its current population is 1,752,000, of whom approximately 669,000 are Kuwaiti 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 1970's and early 1980's; the collapse of the Souk al Manakh—an unregulated curbside securities market—in 1982; the collapse of world oil prices during the mid-1980's; the Iraqi invasion of 1990 and the massive rebuilding effort undertaken after the liberation in 1991. The Kuwaiti budget for FY 94/95 will be in deficit by over 1.7 billion Kuwaiti Dinars (USD 5.8 billion). Revenues will be KD 2,637.2 billion, virtually all from oil. FY 94/95 revenues will be 6.5 percent less than FY 93/94 projections while expenditures will be 11 percent higher than FY/94. The deficit increase is caused in part by the inclusion in the budget of almost KD 450 million (USD 1.5 billion) of arms purchases that were included in supplemental budgets rather than the regular budget.

A World Bank report summary, published in the local English press in the summer of 1993, advocates an economic program that will reduce the deficit, privatize many government-owned companies and services, reduce subsidies and promote employment of Kuwaiti citizens in the private sector. Most officials agree with the overall conclusions of the report. That said, little has been done to date to move toward specific implementation of the report's recommendations.

A "difficult debts" law passed the National Assembly in 1993. The Government of Kuwait purchased the commercial debts of the banking system with USD 20 billion worth of government bonds. The debtors were given the option of a twelve-year interest-free rescheduling of their debt or an "immediate payment" of approximately 45 percent of the balance of the debt. Local banks are administering the program for the Government of Kuwait. The law contains a September 1995 "immediate payment" deadline which has led to a more conservative investment posture on the part of the private sector. There may be revisions in the regulations governing the law.

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 Central Bank maintained this policy during the uncertainties of October 1994 when Iraq mounted a serious threat on Kuwait's border. The Kuwaiti Dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which reflects 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, as the Dollar makes up over half of the basket.

3. Structural Policies

As a member of the Gulf Cooperation Council (GCC), Kuwait plays a part in GCC efforts to promote economic integration among its member states. In practice, this means duty free imports from other GCC states and adoption of some GCC product standards.

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. Individuals are not subject to income taxes, which eliminates one government tool used in other countries to institute social or investment policies. 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.

There are proposals to allow foreign equity participation in the banking sector (up to 40 percent) and in the upstream oil sector (terms still to be determined). Foreigners (with the exception of nationals from some GCC states) are forbidden to trade in Kuwaiti stocks on the Kuwaiti Stock Exchange except through the medium of unit trusts.

Foreign nationals, who represent a majority of the population, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses and may not own property (there are some exceptions for citizens of other GCC states). In past years, as part of its deliberate demographic policy to reduce the number of expatriates in the country, the government also made it difficult for foreign workers to sponsor their families for residency by installing high minimum wage requirements for the individual workers wishing to apply for family visas. Currently, third-country nationals employed in the private sector must earn approximately $2,000 a month, while public sector employees must earn $1,400 a month in order to sponsor their families in Kuwait. This is currently under review and the income levels may be reduced to permit more families to come to Kuwait. Families may elect to stay in their country of origin, however, since the cost of living is comparatively higher in Kuwait than in other Arab or South Asian countries. Finally, in labor markets, resident foreign nationals are subject to stringent visa requirements, special taxes and fees that are intended to both discourage their employ and limit their tenure in Kuwait.

Biases are also in place in regard to trade. Government procurement policies, for instance, generally specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement, which requires all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

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 public 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" (such as medical care overseas, free or cheap building lots and subsidized home mortgages) 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 and Kuwait's share of the additional expenses of the October 1994 "Vigilant Warrior" exercise undertaken in response to Iraqi provocations has highlighted the need for Kuwait to contemplate the World Bank recommendations, particularly reduced subsidies, increased fees and possible taxes on Kuwaitis and expatriates. A proposal for a short-term, emergency wage tax was quickly killed and replaced with a system of voluntary donations for the national defense.

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 variously have been valued at between USD 80 billion and USD 100 billion. A current reasonable estimate of the value of Kuwait's performing

assets in the Future Generations Fund would be in the range of USD 35 to 39 billion.

Kuwait owes a USD 5.5 billion jumbo loan to foreign banks and other amounts to official export credit agencies (ECA). According to Government of Kuwait officials, these obligations will be paid on schedule and according to terms. In 1995, Kuwait is scheduled to pay USD 2.486 billion which will increase to USD 3.298 billion in 1996.

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), although there are proposals to raise some tariffs on January 1, 1995, as part of a GCC "harmonization upward," which contradicts efforts in most other countries to lower tariffs. There are also revenue reasons for considering tariff increases.

Kuwait is a Muslim country and does not permit the import of alcohol or pork from any country. It continues to participate in the Arab League primary boycott of Israel. Kuwait has renounced the secondary and tertiary boycotts 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 countertrade obligations for all foreign suppliers in the case of all government contracts in excess of KD 1.0 million (USD 3.40 million).

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Almost 98 percent of Kuwait's food is imported. Small amounts of local vegetables are grown by farmers receiving government subsidies, and small amounts of these vegetables are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait is a founding member of the new World Trade Organization. In keeping with related obligations under the Uruguay Round/ Trade Related Intellectual Property Agreement (TRIPS) it will have to begin to implement laws and practices consistent with international conventions on intellectual property protection (notably the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property.) Currently, intellectual property rights protection is extremely minimal in Kuwait. Kuwait is not party to any worldwide conventions for the protection of intellectual property rights. Kuwait's laws do not address important areas of intellectual property and those areas which are addressed in law do not provide adequate deterrents to piracy.

Kuwait 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 draft copyright law being prepared by the Government of Kuwait was still not complete by the end of 1994. There is concern that the content of the draft may still not include adequate protection for foreign works, sound recordings or compilations of facts and data. The adequacy of terms of protection for various types of works and the need for deterrent penalties for infringement are also concerns the U.S. has raised with officials in the Kuwaiti government.

Kuwait has had patent and trademark laws since 1962, but the penalties under both are so low (a maximum fine of USD 2,100) as to be effectively irrelevant in deterring illegal activities. The patent law excludes certain products such as chemical inventions involving foods, pharmaceuticals and other medicines, from protection. Among patentable products and processes it offers a term of protection of only 15 rather than the more conventional 20 years. It also contains extraordinary provisions for compulsory licensing whenever a patent is insufficiently used in Kuwait or is of "great importance to national industry."

8. Worker Rights

a. *The Right of Association.*—Kuwait is a member of the International Labor Organization (ILO) and has ratified the 1948 ILO Convention 87 on Freedom of Association.

Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions but the government restricts the right of association by limiting the number of unions which may be established. There are certain additional restrictions on

non-Kuwaiti workers. In 1994, 28,400 workers in Kuwait were organized as union members; non-Kuwaitis constituted 33 percent of unionized workers.

New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, who comprise about 80 percent of the labor force in Kuwait, are allowed to join unions after five years residence, but only as nonvoting members. In practice, foreign workers can join unions after one year.

One law requires that workers may establish only one union in any occupational trade, and that the unions may establish only one federation. Both the ILO and International Confederation of Free Trade Unions (ICFTU) have criticized this requirement since it discourages unions in sectors employing few Kuwaiti citizens (e.g. in construction).

b. *The Right to Organize and Bargain Collectively.*—Although legally unions are independent organizations, in fact, the government maintains a large oversight role with regard to their financial records: 90 percent of union budgets are in the form of government subsidies. Unions must also follow a standard format for internal rules and constitutions, which includes prohibitions of any involvement in domestic political, religious, or sectarian issues. In practice, these limitations have not prevented unions from engaging in a wide range of activities. A court (under certain circumstances) or the Amir may dissolve a union. In practice, no union has been dissolved in either manner. Kuwaiti citizen union members have the right to elect representatives of their own choosing, provided the candidates are also Kuwaitis and can demonstrate that they have no criminal record.

All but two unions, the Bank Workers Union and the Kuwait Airways Workers Union, are affiliated with the Kuwait Trade Union Federation (KTUF). The KTUF consists of nine civil service unions and three oil sector unions, but the oil unions have equal representation (36 members) in the 72-member KTUF Assembly. The KTUF belongs to the International Confederation of Arab Trade Unions and the formerly Soviet-controlled World Federation of Trade Unions.

The KTUF opened an "Expatriate Labor Office," responsible for resolving problems between foreign workers and their employers in the private sector. The office is not connected with the government. It provides assistance to all foreign laborers, regardless of whether or not they are union members.

The right to strike is recognized, but limited by Kuwait's labor law, which stipulates compulsory negotiation, followed by arbitration if a settlement cannot be reached between labor and management. There are no specific legal provisos to prohibit retribution against strikers and strike leaders. Despite limitations, strikes do occur. In 1994, one strike was called by cleaning personnel in Kuwaiti schools for a pay raise; the second, by security guards at the Social Welfare Home over unpaid wages. The majority of these workers were expatriates.

The ILO has critized: Kuwait's prohibition on more than one trade union for a given field; the requirement that a new union must have at least 100 workers; the five-year residence requirement for foreign workers to join a trade union; the denial to foreign trade unionists voting rights and the right to be elected to union positions; the prohibition against trade unions engaging in any political or religious activity; and the reversion of trade union assets to the Ministry of Social Affairs and Labor in the event of dissolution.

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 absent their employers' consent. Kuwaiti sponsorship is necessary in order to obtain a residence permit and foreign workers cannot change their employment without permission from their original sponsors. Domestic servants are particularly vulnerable to abuses from this practice because they are not protected by Kuwaiti labor law. In addition, domestic servants who run away from their employers can be treated as criminals under Kuwaiti law for violations of their work and residence permits, especially if they attempt to work for a new employer without permits.

Sponsors frequently hesitate to grant their servants permission to change jobs because of the financial investment (travel, medical examinations and visas) made before they even arrive in Kuwait (often USD 700–1,000). In many cases, employers can exercise control over servants by holding their passports. The practice is prohibited, however, and the government has acted to retrieve passports of maids involved in work disputes. There are some reports employers illegally withheld wages from domestic servants to cover the costs involved in bringing them to Kuwait. The government has done little, if anything, to protect domestics in such cases.

d. *Minimum Age for Employment of Children.*—Under Kuwaiti law, the minimum employment age is 18 years for all forms of work, both full- and part-time. Compulsory education laws exist for children between the ages of 6 and 15. The Minister

of Social Affairs and Labor is charged with enforcing minimum age regulations. The laws are not fully observed in the nonindustrial sector, although no instances involving Kuwaiti children have been alleged. Children may be employed part-time in small family businesses. There have been unconfirmed reports of some South Asian domestics under 18 who falsified their age to enter Kuwait.

Employers may obtain Ministry permits to employ juveniles (14-18 years old) in certain trades. Juveniles may work a maximum of six hours daily, provided they work no more than four consecutive hours followed by at least an hour of rest.

e. *Acceptable Conditions of Work.*—The Ministry of Social Affairs and Labor is responsible for enforcing all labor laws. A two-tiered labor market ensures high wages for Kuwaiti employees while foreign workers, particularly unskilled laborers, receive substantially lower wages. In 1993, the minimum wage in the public sector, set by the government, was appropriately USD 630 a month (180 Kuwaiti Dinars) for Kuwaitis and approximately USD 315 a month (90 Kuwaiti Dinars) for non-Kuwaitis. There is no legal minimum wage in the private sector although occasionally it has been suggested.

The labor law establishes general conditions of work for both the public and the private sectors, with the oil industry treated separately. Women are permitted to work throughout the oil industry, except in hazardous areas and activities, with equal pay for equal work. The civil service law prescribes additional conditions for the public sector. It limits the standard workweek to 48 hours with one full day of rest per week, provides for a minimum of 14 days of leave annually, and establishes a compensation schedule for industrial accidents.

Foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse. Domestic servants, excluded from the purview of Kuwait's labor laws, frequently work hours greatly in excess of 48 hours. Recourse is uneven. Domestic servants from Asian countries have complained in some cases of the lack of assistance from their embassies. In other cases, embassies have founded shelters for abused domestics and worked with the Kuwaiti government to repatriate workers who wished to return home.

The ILO has urged Kuwait to guarantee the weekly 24-consecutive-hour rest period to temporary workers employed for a period of less than six months and workers in enterprises employing fewer than five persons. In November 1994, the government received an ILO Expert Delegation for consultations on possible labor reform.

Laws and regulations do exist on health and safety, medical care and compensation. However, compliance and enforcement appear poor, especially regarding unskilled foreign laborers. While Kuwaiti employers have been known to exploit workers' willingness to accept substandard conditions, workers can remove themselves from hazardous work situations without jeopardizing their jobs, and legal protections exist for workers who file complaints. The government periodically inspects installations to raise awareness among workers and employers and ensure that they abide by the rules.

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—1993

[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/Insurance/Real Estate		(2)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
Services	(1)
Other Industries	8
TOTAL ALL INDUSTRIES	(1)

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

MOROCCO

Key Economic Indicators

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

	1992	1993	1994[5]
Income, Production and Employment:			
Real GDP (billions, in 1980 DHs)	110.3	109.1	117.8
Real GDP Growth (pct.)	−4.4	−1.1	8.0
GDP (at current prices)	28,253	26,636	30,419
By Sector:			
Agriculture/Fishing	4,220	3,809	5,333
Mining	592	524	576
Energy/Water	2,084	2,043	2,369
Manufacturing	5,118	4,800	5,184
Construction	1,410	1,252	1,327
Commerce	6,010	5,555	6,111
Other Services	3,411	3,370	3,707
Transport/Communications	1,779	1,788	1,966
Government	3,628	3,496	3,845
Per Capita GDP (USD)	1,112	1,021	1,142
Labor Force (millions)[1]	4.1	4.3	4.6
Unemployment (pct.)[1]	16.0	16.0	16.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.3	8.7	12.7
Maximum Lending Rate[2]	15.6	14.0	12.0
Private Savings Rate (pct. GDP)	4.9	6.1	8.0
Retail Inflation	5.7	5.2	5.4
Wholesale Inflation	2.8	4.5	2.7
Exchange Rate (year-end, DH/USD)	8.5	9.3	9.3
Balance of Payments and Trade:			
Total Exports (FOB)	3,977	3,685	4,138
Exports to U.S.	149	126	N/A
Total Imports (CAF)	7,356	6,646	7,503
Imports from U.S.	435	672	N/A
Aid from U.S.[3]	126	112	51
External Public Debt	20,422	20,246	20,525
Debt Service Ratio[4]	37.3	38.1	34.7
Foreign Exchange Reserves	3,948	4,105	4,100
Trade Balance	−3,379	−2,961	−3,365
Trade Balance with U.S.	−286	−546	N/A

N/A—Not available.
[1] Urban.
[2] Year-end rate, not change.
[3] Fiscal year.
[4] As a percent of goods, nonfactor services and private transfers.
[5] Projections based on data available October 1994.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural sector (including fishing), a large tourist industry, a growing manufacturing sector (especially clothing), and considerable inflows of funds from Moroccan expatriate workers. Most of Morocco's trade is with Europe, with France alone accounting for about a quarter of Morocco's imports and a third of its exports.

The Moroccan Government has pursued an economic reform program supported by the International Monetary Fund (IMF) and the World Bank since the early 1980s. It has restrained government spending, revised the tax system, reformed the banking system, followed appropriate monetary policies, eased import restrictions, lowered tariffs and liberalized the foreign exchange regime. Further reforms are still needed in some areas, notably trade and agriculture.

The government eased slightly both monetary and fiscal policy over the last year. In late 1993 the Central Bank reduced the reserve requirement from 25 to 10 percent, but required the value of additional reserves made available by the measure to be placed in interest-bearing treasury bonds. The growth in deposits after October 1993 is only subject to the 10 percent reserve requirement, and not to the treasury bond requirement. This led to an increase in the growth of the money supply (M2) from 8.7 percent in 1993 to an annualized rate of over 12 percent by late 1994.

The government's budget deficit is running above initial projections in 1994 due to unfulfilled expectations contained in the budget, unfavorable exogenous developments and new spending initiatives not included in the budget. The government took measures to reduce spending during the second half of 1994 year in order to stem the growing deficit. The government also relies increasingly on the sale of assets under its privatization program to offset higher spending. The deficit is financed largely through the domestic sale of government paper.

Overall, reforms have contributed to lower inflation, narrower fiscal and current account deficits, and modest growth in per capita income during the last decade. While the overall trend has been positive, there have been wide year-to-year fluctuations due to exogenous factors such as rainfall and conditions in Morocco's export markets. The economy rebounded sharply in 1994, with real GDP expected to grow by over eight percent. Virtually all of the growth is due to a record cereals harvest following drought-depressed harvests in 1992 and 1993. Nonagricultural GDP is only expected to grow by two to three percent in real terms.

2. Exchange Rate Policies

The Moroccan dirham is convertible for all current transactions (as defined by the IMF's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions on presentation of documents. Moroccan companies may borrow abroad without prior government permission.

The Central Bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French franc and other European currencies. The rate against the basket has been steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. The large weight given to European currencies in the basket means that the fluctuation of the dollar against those currencies results in a greater volatility of the dollar than the European currencies against the dirham. This increases the foreign exchange risk of importing from the United States as compared to importing from Europe.

3. Structural Policies

Morocco's trade regime is in a flux. A new foreign trade act passed in 1992 reverses a legal presumption of import protection, spelling out permissible grounds for exceptions to the general principle of free trade and providing a legal basis for anti-dumping and countervailing duties. It replaces quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items. However, the new law has not been fully implemented as of late 1994 and nontariff barriers (i.e. licensing requirements) remain on a number of goods, notably agricultural products and crude oil. Many of these requirements are scheduled to be eliminated by January 1995 under the Uruguay Round agreement.

Interest rate policy has also changed in recent years. In early 1994 the government revised the interest rate ceilings on bank loans. The ceiling had previously been set as a 2.5 percentage point markup over the average rate banks receive on deposits, excluding the below-market-rates for some required holdings. The new ceiling is set as a three to four percent markup over the rate received on deposits, including the below-market-rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value added tax (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. In 1993 the government lowered the maximum personal and corporate income taxes and reduced the tax on stock dividends.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 67 percent of GDP in 1994. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 35 percent in 1994, which is roughly what actual rescheduled debt service payments averaged in recent years. The Moroccan Government therefore does not foresee the need for further Paris Club rescheduling.

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

Import licenses: Morocco has eliminated import licensing requirements on a number of items in recent years. Import licensing requirements for several items, including sugar, cereals and edible oils, are slated to be eliminated in early 1995. That will leave mainly motor vehicles, used clothing and explosives covered by import licensing requirements.

Tariffs: Tariffs have been gradually reduced in recent years. By 1993 the maximum tariff was 35 percent and the (trade-weighted) average tariff was about 13 percent. That trend is now being reversed as Morocco replaces quantitative restrictions with higher tariffs on a number of products. In particular, tariffs of up to 300 percent were imposed in late 1993 on dairy and meat products in conjunction with the elimination of licensing requirements on those items. Tariffs of between 73 and 311 percent may be imposed on cereals, edible oils and sugar following the elimination of licensing requirements and reference price systems on those goods early next year. There is also a 10 to 15 percent surtax on imports.

Services barriers: In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993 the Moroccan Government repealed the 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the Moroccan Government's 50 percent share of Mobil's Moroccan subsidiary in 1994.

Standards, testing, labeling and certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat must be slaughtered according to Islamic law.

Investment barriers: The Moroccan Government actively encourages foreign investment. The investment law contains separate sectoral codes covering industry, tourism, housing, maritime, mining, petroleum exploitation and exports. These codes generally 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.

Government procurement practices: While Moroccan government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. Virtually all of the government procurement contracts that interests U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulties with the requirement that bids for government procurement be in French.

Customs procedures: In principle customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

6. Export Subsidies Policies

There are no direct export subsidies. The centerpiece of export promotion policy is a temporary admission scheme which allows for suspension of duties and licensing requirements on imported inputs for export production. 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.

The government maintains an export industry investment code which provides up to five years' tax holiday on 50 percent of profits for qualified Moroccan and foreign investors. Morocco is not a signatory of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization (WIPO) and is a party to several international agreements including: (a) the Berne Convention for the Protection of Literary and Artistic Works, (b) the Paris Convention for the Protection of Industrial Property, (c) the Universal Copyright Convention, (d) the Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite Convention, (e) the Madrid Agreement Concerning the International Registration of Marks, (f) the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks and (g) the Hague Agreement Concerning the International Deposit of Industrial Designs.

Copyright: Computer software is not specifically covered by Morocco's copyright law and software piracy is a widespread problem.

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. Counterfeiting is primarily for local sales 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 ten percent of Morocco's 4.6 million urban 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. The constitutional right to strike was called into question in 1994 when the government sought to ban a general strike proposed by one union. The government contended that the right to strike requires implementing legislation, which has never been adopted. Unions and human rights groups rejected the government interpretation. The strike call was finally rescinded by the union. More narrowly focused strikes continue to occur, although strikers often encounter police harassment and arrest. Many 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.*—The minimum wage was raised ten percent on July 1, 1994, to about $168 a month. This was the first raise in the minimum wage in two years. 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—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		71
Food & Kindred Products	27	
Chemicals and Allied Products	8	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		94

[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]

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1988 prices)	8,563.1	N/A	N/A
Real GDP Growth (pct.)	−9.0	N/A	N/A
GDP (at current prices)	11,496.7	11,491.2	N/A
By Sector:			
Petroleum	4,733.3	4,193.8	2,082.9
Natural Gas	142.0	157.6	75.7
Mining	16.1	8.8	9.9
Oil Refining	53.3	99.9	43.2
Electricity/Water	175.5	149.2	85.5
Construction	471.4	489.1	182.8
Wholesale/Retail Trade	1,601.3	1,728.4	892.1
Government Services	2,008.5	2,181.1	982.0
Other Sectors	2,418.5	2,625.0	1,536.9
Less-Imputed Bank Charges	−247.5	−254.8	−162.8
Real Per Capita GDP (1988 base)	6,044.7	5,943.5	N/A
Labor Force (000s)	530.0	521.3	N/A
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	3,312.7	3,420.3	N/A
Weighted Average Interest Rate on Deposits	4.2	2.9	N/A
Personal Saving Rate	N/A	N/A	N/A
Consumer Price Inflation	1.4	1.9	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
Consumer Price Index (1990 base)	105.6	106.6	N/A
Exchange Rate	1 rial equals USD 2.60		
Balance of Payments and Trade:			
Total Exports (FOB)	5,449.6	5,298.0	[4] 2,056.3
Exports to U.S. (non-oil)	26.4	42.1	N/A
Total Imports (CIF)	3,900.0	4,112.9	[4] 1,596.7
Imports from U.S.	256.9	331.8	N/A
Aid from U.S.	30.0	1.6	0.2
Aid from Other Countries	72.7	N/A	N/A
External Public Debt	N/A	N/A	N/A
Debt Service Payments	N/A	N/A	N/A
Gold and FOREX Reserves[2]	2,334.5	1,813.4	N/A
Trade Balance	1,549.6	1,185.1	N/A
Trade Balance with U.S.[3]	230.5	289.7	N/A

N/A—Not available.

[1] Unless otherwise indicated, all 1994 figures are for the first six months only.

[2] Gold and foreign currency are Central Bank reserves. State general reserve fund figures are not publicly available.

[3] The trade balance with the U.S. does not include Omani oil purchased by the U.S. on the spot market. No oil is purchased directly from Oman by U.S. companies.

[4] Figures through May.

Sources: Annual Report–1993, Central Bank of Oman; monthly statistical bulletins-main economic and social indicators, Ministry of Development.

1. General Policy Framework

The Sultanate of Oman is a small nation of just over 2.0 million people (537,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oil production is the foundation of the economy. Oman is a small oil 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 USD 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 applies to Omani-owned companies. There is no personal income tax nor are there property taxes. The most significant sources of income besides oil revenues are the 5 to 20 percent tariffs levied on imports, revenues from utilities, and revenues from the 100 percent tariff on tobacco, liquor and pork. Recently, the government imposed substantial increases in the fees for labor cards and fines were proposed for companies which do not reach specified levels of "Omanization" by the end of 1996. There is also a tax on companies which employ expatriates which is used for vocational training for Omanis.

The 1993 budget deficit stood at 28 percent of net government revenues due to weak oil prices and resulting slowdown in revenues combined with only a 1.0 percent cut in spending. The government financed the shortfall by drawing down reserves and issuing development bonds, which were first sold in August 1991. At least 34 percent of Oman's budget is spent on defense and security, 35 percent on the activities of the civil ministries and 22 percent on capital spending projects.

Oman promotes private investment 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 creating Omani investments. Access by foreigners to the Omani economy is generally through Omani agents or partners, although restrictions on asset ownership are decreasing. Fellow nationals of the Gulf Cooperation Council (GCC) states can

now invest in Oman. Oman and Bahrain are exchanging listings on their respective stock exchanges. In addition, a new investment mutual fund has been established allowing non-GCC nationals to buy Omani shares, at least indirectly through the mutual fund.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. Oman has no legal provision for using government bonds to regulate the money supply. The large amount of money sent home by expatriate workers in the country and by foreign companies in Oman helps ease monetary pressures.

2. Exchange Rate Policies

The rial is pegged to the U.S. dollar at a value of one rial to USD 2.60. Oman last devalued the rial in 1986.

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), but these are enforced inconsistently.

Wholly Omani-owned companies now face taxes on profits, but at a low rate, giving them a clear advantage over companies with substantial foreign ownership. 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.

A recent development in Oman is an increasing reliance on privatization. Companies currently owned by the government are being privatized partially or completely. In addition, new major projects are being designed with a significant private sector component.

4. Debt Management Policies

Oman's sovereign debt is estimated at USD 2.9 billion. So far, the debt is easily managed and is owed to a consortium of international 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. In 1993, modest aid packages went to Bosnia and Somalia.

5. Significant Barriers to U.S. Exports

A license is required for all imports to Oman. Special licenses are required to import pharmaceuticals, liquor and defense equipment. The licenses for general merchandise are issued to the sole agents of individual products in order to protect the exclusivity of the relationship. Once entered into, the agency agreements are difficult to break. This may cause problems for exporters who enter into agency agreements without fully judging the qualifications of the agent. For instance, some local agents 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.

There has, however, been one recent change affecting agency agreements. Individuals are now allowed to bring in goods through the ports or airports without paying the agent's commission. This, however, is a policy more designed to promote activity at the ports and airports than an attempt to change fundamentally the agency requirements.

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 mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with Great Britain, 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 labelling 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" their work forces as quickly as possible. The government has recently set minimum "Omanization" levels for many sectors of the economy which must be achieved by the end of 1996. Those companies failing to meet those levels will have to pay a fine equal to half the amount of the salaries being paid to the expatriates who exceed the numbers permitted.

Oman continues to promote "buy Oman" laws. This is a slow process as very few locally made goods meeting international standards are available. The tender board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price. In addition, the extremely short lead times make it difficult to notify U.S. firms of trade and investment possibilities which, in turn, makes it difficult for those firms to obtain a local agent and prepare tender documents in the alloted time.

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 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 yet a member of the General Agreement on Tariffs and Trade (GATT) but is considering joining.

7. Protection of U.S. Intellectual Property

Oman has a trademark law which the government enforces actively.Official registration of trademarks appear in most issues of the Official Gazette. Such application for trademark protection, however, depends on whether the company has a local agent. There is no patent or copyright protection, although draft laws on each are circulating through the Omani government. Oman is not a member of any major international intellectual property protection conventions. However, Oman has shown an interest in other views and concerns on intellectual property rights (IPR) issues. A U.S. intellectual property rights (IPR) delegation visited Oman in May 1992 and, in early 1994, a World Intellectual Property Organization (WIPO) team advised the Oman on its draft Copyright Law.

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. Pirated versions of computer software are also available. Nevertheless, local agents of foreign companies seek to limit pirating when it cuts into their business marketing legitimate products. In terms of computer software, major companies and government agencies buy only legitimate products.

8. Worker Rights

a. *The Right of Association.*—Omani labor law does not presently address the formation of labor unions. Although Oman's labor law does not expressly grant workers the right to strike, in practice, a few strikes have occurred. In 1994 Oman joined the International Labor Organization and received a visiting ILO delegation in the fall of 1994. Legislation amending the labor law is currently under review by the government which may liberalize regulations with respect to the right of association which includes the right to strike.

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 rep-

resentatives and to relay to the Ministry of Social Affairs and Labor the proposed constitution for the body. Wages are set by employers within guidelines set 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 workplace. 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 Social Affairs and Labor for decision.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by law.

d. *Minimum Age of 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. More than 90 percent 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 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 one-half days in the private sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[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/Insurance/Real Estate		3
Services		4
Other Industries		0
TOTAL ALL INDUSTRIES		123

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

SAUDI ARABIA

Key Economic Indicators

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

	1992	1993	1994 [1]
Income, Production and Employment:			
Real GDP (1990 prices)	115.8	N/A	N/A
Real GDP Growth (pct.)	1.0	N/A	N/A

Key Economic Indicators—Continued

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

	1992	1993	1994[1]
GDP (at current prices)[2]	121.4	122.6	119.2
By Sector:			
Oil	47.1	45.6	44.3
Private Sector	41.7	43.8	45.0
Government	32.6	33.2	30.2
Real Per Capital GDP[3]	7,175	7,000	6,575
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	5.5	−0.8	4.8
Base Interest Rate[5]	3.5	3.5	3.9
Wholesale Inflation[4]	1.3	0.6	1.4
Consumer Price Index[4]	−0.4	0.8	0.5
Exchange Rate (SR/USD)	3.75	3.75	3.75
Balance of Payments and Trade:			
Total Exports (FOB)	47.0	44.9	41.1
Exports to U.S. (FAS)[4]	10.3	7.8	4.0
Total Imports (FOB)	30.2	25.9	23.3
Imports from U.S. (FAS)[4]	7.0	6.7	3.2
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	N/A
Debt Service Payments (paid)	0.0	0.0	N/A
Gold and FOREX Reserves[4]	4.8	5.9	5.3
Trade Balance	16.8	19.0	17.8

N/A—Not available.
[1] Embassy estimates.
[2] In purchasers' values.
[3] Based on the official 1992 census data and current GDP.
[4] For 1994, data for the first half of the year.
[5] Average annual rate for 1-month deposits, 1994 average for first half of the year.

1. General Policy Framework

Saudi Arabia has an open, developing economy with a large 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, and labor. But the government's interest in promoting economic development, defense, and technology transfer helps reduce favoritism toward Saudis and the GCC over foreign investors in the domestic economy.

Oil dominates the Saudi economy, comprising an estimated 37 percent of GDP, 75 percent of budget receipts, and 90 percent of exports in 1993. Much of the non-oil GDP is tied to oil, as consumption and investment are dependent on oil receipts and services and supplies are sold to the oil sector. The government sector plays a significant role in influencing resource allocation within the Saudi economy. Non-oil budget revenues include customs duties, investment 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 1993 estimated at USD 13 billion—11 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 through government bonds and bills to conserve its remaining assets. Defense and security account for nearly one-third of all budgeted expenditures, and the government also makes large outlays for salaries, capital projects, services, and operations and maintenance programs. The government embarked on a major austerity program in 1994—reducing planned spending by 19 percent over the level planned for 1993—but will likely record its twelfth consecutive budget deficit for the year. King Fahd openly endorsed privatization in 1994, and the government has begun studying the sale of some state-owned firms.

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 nonbank 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 to SDR 1, 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 Dollar. Saudi Arabia last devalued the Riyal in June 1986 when it set the official selling rate at SR 3.75 to USD 1. 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. In accordance with UN resolutions, the prohibition has been expanded to include transactions with Iraq and Serbia. Sanctions against South Africa ended this year. Local banks are prohibited from inviting foreign banks to participate in Riyal-denominated transactions inside or outside Saudi Arabia without prior approval of SAMA. 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 and energy. 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 USD 400 and 533.33 per ton to large and small farmers respectively) are substantially above world market levels. The government adjusted its pricing policy for wheat in 1993 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 profit of less than USD 26,667 to a maximum rate of 45 percent for profits above USD 266,667. Foreign investors receive tax incentives, including a 10-year tax holiday for approved agricultural and manufacturing projects with a minimum of 25 percent Saudi participation. Saudis 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

Saudi Arabia is a net creditor in world financial markets. SAMA manages a foreign portfolio of over USD 50 billion in its issue and banking departments and an estimated USD 15 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 USD 10 to 15 billion of its more than USD 50 billion portfolio is available. The remainder is earmarked to guarantee the currency or letters of credit. In addition to the overseas assets managed by SAMA, Saudi Arabia's commercial banking system had a net foreign asset position of USD 19.7 billion at the end of 1993. The Saudi government began 1994 with a foreign debt of USD 4.5 billion from a syndicated loan signed in 1991. As of November 1994, it had made principal payments of USD 2.7 billion on that debt. The domestic banks, Saudi Aramco and other state-owned enterprises have overseas liabilities.

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 1993, total Saudi government domestic and foreign debt was an estimated USD 80 billion, or 65 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 eight percent of expenditures in 1993.

5. Significant Barriers to U.S. Exports

Although the U.S. 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 include some technology transfer. While there are no legal limitations on percentage of foreign ownership, prior to 1994, wholly foreign-owned ventures were unlikely to receive government approval. 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 Cooperative Council (GCC).

Saudi labor law requires companies registered in the Kingdom to give preference to Saudi nationals when hiring. The expatriate workforce in the Kingdom is approximately four million. Saudi Arabia announced implementation of a Business Entry fee of Saudi riyals 1,000 (USD 267) in 1995 for working involving Saudi and non-Saudi companies.

On September 30, 1994, the GCC foreign ministers publicly announced that the GCC was no longer enforcing the secondary and tertiary aspects of the Arab League boycott of Israel. Some Saudi commercial documentation continues to contain references to the Arab League boycott. U.S. firms often have to seek revision of these documents before they sign the documentation. The primary boycott against products and services from Israel remains in force.

Import licensing requirements designed to protect domestic industries or restrict importing to nationals are an obstacle to free trade. Saudi Arabia requires a license to import agricultural products. In addition, contractors of civilian projects may not import di[illegible] and instead must purchase equipment and machinery from Saudi [illegible].

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-made 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. 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. The government also gives a preference to national shipping companies: up to 40 percent of governmental purchases must be shipped in Saudi-owned vessels.

Saudi customs rules require that incoming goods be accompanied by documentation certified by an approved member of the 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 Subsidies 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. On April 13, 1994, Saudi Arabia acceded to the Universal Copyright Convention (UCC). It began enforcing reciprocal protection for UCC signatories July 13, 1994, although pirated products may still be commonly found in shops.

The Kingdom's copyright law went into effect in 1990. The law provides protection for the life of the author plus fifty years in the case of books, and in the case of sound and audio visual works, for the life of the author plus twenty-five years. Computer programs are also covered, although the law does not specify a period of protection. The law does not apply to Western works, however, Saudi authorities have indicated that through the Kingdom's accession to the Universal Copyright Convention, they will be able to extend protection to Western works. As of November 1994, overt computer piracy has decreased, but many pirated videos and sound recordings are still available in the marketplace.

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. 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 1994, the Saudi Patent Office had not yet acted on any of the 3,000 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 are spotty. Some proceedings can take years and cost tens of thousands of dollars, while others can be resolved in less than two weeks. Moreover, many Saudi judges are trained only in religious law and are perceived as unsympathetic to trademark claims brought by foreigners.

U.S. industry groups have estimated losses due to lack of copyright protection at over USD 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 both the formation of labor unions and strike activity.

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, particularly in the case of domestic servants and 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 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—1993

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)
Total Manufacturing	(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount	
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	35	
Wholesale Trade		27
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		104
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,567

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

SYRIA

Key Economic Indicators [1]

	1992	1993 (est.)	1994 (est.)
Income Production and Employment: [2]			
Real GDP (1985 prices)	9,778	10,560	10,982
Real GDP Growth (pct.)	10	8	4
GDP (at current prices)	33,124	35,774	37,205
By Sector:			
Agriculture	1,870	2,020	2,100
Energy/Water	2,500	2,700	2,808
Manufacturing	3,015	3,256	3,386
Construction	240	259	270
Rents	N/A	N/A	N/A
Financial Services	407	440	458
Other Services	143	155	161
Government/Health/Education	1,351	1,459	1,518
Net Exports of Goods & Services	3,100	N/A	N/A
Real Per Capita GDP (1985 base)	752	782	784
Labor Force (000s)	3,600	3,900	4,300
Unemployment Rate (est./pct.)	7	7	7
Income Production and Employment: [3]			
Real GDP (1985 prices)	2,607	2,816	2,929
Real GDP Growth (pct.)	10	8	4
GDP (at current prices)	8,833	9,540	9,921
By Sector:			
Agriculture	499	539	560
Energy/Water	667	720	749
Manufacturing	804	868	903
Construction	64	69	72
Rents	N/A	N/A	N/A
Financial Services	108	117	122
Other Services	38	41	43
Government/Health/Education	360	389	405
Net Exports of Goods & Services	3,100	N/A	N/A
Real Per Capita GDP (1985 base)	201	208	209

Key Economic Indicators[1]—Continued

	1992	1993 (est.)	1994 (est.)
Labor Force (000s)	3,600	3,900	4,300
Unemployment Rate (est.)	7	7	7
Money and Prices:			
Money supply (M2) (million SP)	182,125	191,322	191,322
Base Interest Rate[4]	9	9	9
Personal Saving Rate	4.8	4.8	4.8
Retail Inflation	12.5	16.0	8.0
Wholesale Inflation	9.6	12.0	6.0
Consumer Price Index	486	564	609
Exchange Rate (USD/SP)			
Official	11.20	11.20	11.20
Blended	26.60	26.60	26.60
"Neighboring Country Rate"	42	42	42
Offshore market	46–52	47–52	49–52
Balance of Payments and Trade: (USD millions)			
Total Exports (FOB)	3,100	3,400	3,600
Exports to U.S.	45.8	144.7	120.0
Total Imports (CIF)	3,498	4,100	4,000
Imports from U.S.	214.0	267.2	300.0
Aid from U.S.	0	0	0
Aid from Other Countries	1,753.0	1,358.0	701.9
External Public Debt	18,000	19,400	N/A
Debt Service Payments (paid)	1,399	N/A	N/A
Foreign Exchange Reserves	N/A	N/A	N/A
Gold Holding (millions of troy ounces)	0.833	0.833	0.833
Trade Balance	−398.0	−700.0	−400.0
Trade Balance with U.S.	−168.2	−122.5	−180.0

N/A—Not available.

[1] The Syrian Government has not published its 1993 statistics as of the completion of this report. Further, the government's 1992 economic statistics remain estimates. All figures in the preceding tables are estimates based on the government's 1992 estimates, other sources in the public domain, and the U.S. Embassy's own calculations.

[2] Millions of U.S. dollars converted at the official rate of 11.2 Syrian pounds/ 1 U.S. dollar.

[3] Millions of U.S. dollars converted at the "Neighboring Country" rate of 42 Syrian pounds /1 U.S. dollar.

[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 10 years.

1. General Policy Framework

In the past year, the Syrian government, except for tightening exchange rate controls, has acted to reduce administrative barriers to U.S. exports. The private sector, responding to these and other reforms, has increased its imports beyond those of the public sector; however, increases of U.S. exports to Syria have lagged behind those of other countries, probably due to continued U.S. Government foreign policy sanctions and remaining Syria administrative and legal barriers to trade. As a reward for participation in the Gulf War, Arab Gulf states have contributed large, but declining amounts of aid, to Syria over the past three years. These allocations, over USD 1.7 billion in 1992, and USD 1.3 billion in 1993, have gone to rehabilitate Syria's telecommunications and electrical power generation sectors.

Prospects for Syrian private sector investment and imports continue to improve, spurred by economic reforms, including an investment encouragement 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: 75 percent of industrial export earnings, 100 percent of agricultural sales. Although retaining a monopoly on "strategic" imports, such as wheat and flour, the Government continued to expand the list of permitted imports during 1994, including items, such as sugar and rice, formerly reserved for public sector importing agencies. During 1993 the government attempted to interdict many of the goods imported for the "unofficial market" and succeeded briefly in reducing supplies. Ultimately it discontinued the activity because of inadequate resources to

enforce the interdict and the strong public demand for such goods. Responding to the demand, the government began expanding the list of importable goods.

The United States imposed trade controls in 1979 as a response to Syria's involvement with terrorism. The U.S. Government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S. origin components and 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 principle tool for managing the economy. Through 1992, the Syrian government's ability to raise official prices on many consumer items (effectively reducing subsidies), improve tax collections, and increase transfers from state enterprises, while reducing commitments of Syrian resources to capital expenditures, enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the last two annual budgets have been in deficit, due the cost of maintaining Syria's large military establishment (both domestically and in Lebanon) and its recently reduced, but still heavy, subsidization of basic commodities and social services.

Given Syria's anachronistic and nationalized financial system and its 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, which exerts 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 Syrian pounds 11.20 to USD 1 for the government, certain public sector transactions and valuations for some customs tariff rates. A second exchange rate, called the "Blended Rate," SP 26.6 to USD 1, can be used by the U.N. and diplomatic missions. A third rate, the "Neighboring Country" rate, SP 42 to USD 1, applies to most state enterprise imports except certain basic commodities and military/security items. Recently, a foreign oil company signed an exploration contract allowing it to transact contract-related business at the "Neighboring Country" rate, a first for the oil sector. Outside Syria, a thriving offshore market for Syrian pounds operates in Lebanon, Jordan, and the Arab Gulf countries. During 1994, the value of the Syrian pound fluctuated between SP 49 and 51 to the dollar in these locations.

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 percent of foreign exchange earnings to the Central Bank at the official rate. Now, private exporters may retain 75 to 100 percent of their export earnings in foreign exchange to finance imports of inputs and other items designated on a short list of basic commodities, surrendering the balance to the Commercial Bank of Syria, generally, 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, although enforcement in most sectors is spotty. The ministry also sets profit margin ceilings, generally up to 20 percent, on private sector imports. Local currency prices are computed at the SP 42 to USD 1 rate. In the agricultural sector, production of strategic crops (cotton, wheat) is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel, and 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. In

1994, the local price of wheat was 25 percent above the world price computed at the free market rate.

With the surge of private industrial investment, especially in textile and clothing manufacturing, private sector capital goods imports exceeded the public sector's in 1993. However, public sector demand remains significant. Contracts are awarded through the official tender system. These are open to international competition with no restrictions, other than language pertaining to the Arab League boycott of Israel and the requirement to post a bid bond. Syrian public sector entities will accept positive statements of origin to deal with the boycott issue.

Syria's tariff system is highly escalated, reaching 200 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets are 64 percent. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread.

4. Debt Management Policies

Syrian authorities have been unwilling to provide data on non-civilian debt, as well as accumulated obligations under bilateral clearing arrangements. Guaranteed civilian debt is officially estimated at approximately USD 3.4 billion. The diplomatic community estimates Syria's total external public debt at about USD 18 billion dollars. Very little Syrian commercial debt is held by U.S. companies, but sovereign debt is about USD 250 million.

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 more than USD 12 billion. The government has had some recent success in settling with bilateral creditors, while refusing to deal with the Paris Club as a group. Syria suspended payments to the Russian Republic in 1992, but is negotiating a settlement. The government remains badly in arrears on payments to official export credit agencies and bilateral donors, including the U.S. Agency for International Development. Syria has been in violation of the Brooke Amendment since 1985. Syria resumed payments to the World Bank in 1992, and, except for a brief interval in 1993, has been making payments to the World Bank sufficient to prevent increases in its arrears.

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. Tariff exchange rates depend on the type of good.

Government procurement procedures pose special problems. Although foreign exchange constraints have eased, many public sector companies continue to favor barter arrangements which can be unattractive to US suppliers. In addition, problems remain in the prompt return of performance bonds.

Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expiry date, without need for any other procedure. Some government tenders include a clause allowing the bidder to cancel his bid at six-month intervals, provided a written notice is received within a stipulated time frame. If such a clause is not included in the tender, it can 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 laws. Public sector agencies reportedly accept positive certification from U.S. companies in response to tender application questions. Once interested parties obtain tender documents, they would be well advised to obtain competent advice regarding the anti-boycott regulations before proceeding. One source of such advice is the U.S. Department of Commerce Office of Anti-boycott Compliance (telephone advice line (202) 482-2381).

Given the centralized structure of the economy, specific "buy national" laws do not exist. Strategic goods, military equipment, wheat, sugar, and items 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 theoretically encourages 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 exemptions 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 makes it a criminal act to conduct 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 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 with the exception noted in Paragraph 6. (See below.) Despite cost recovery schemes, this requirement has inflated company operating costs, exposing them to greater risk and contributed to the departure of two more foreign petroleum exploration companies in 1994.

6. Export Subsidy Policies

Export financing and subsidies are not available to either the public or the private sectors. In fact, some exports are subject to special taxes. Recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the unfavorable official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to complete export transactions have enhanced the foreign exchange position of these companies.

7. Protection of U.S. Intellectual Property

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. There is, however, no copyright protection. Syria is a member of the Paris Union for the International Protection of Industrial Property. Prior registration of intellectual property is required to bring infringement suits.

Due to the unsophisticated industrial structure and existing limits on private industry, there are few major infringement problems. Local courts would likely give plaintiffs fair hearings, but any financial awards would be in Syrian pounds. Requests for payment in foreign exchange would probably be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors. The publishing industry is not well developed. Despite the lack of legal protection, major commercial infringements do not appear to be a problem. There are, however, individual entrepreneurs who copy records, cassettes, and videos, and sell them. 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. The industry is also concerned with unauthorized hotel video performances, which are said to be common. However, only a few hotels have internal video systems.

8. Worker Rights

a. *The Right of Association.*—The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are also each elected by their respective union's membership.

The Syrian government contends that there is in practice trade union pluralism. However, workers are not free to form labor unions independent of the government-prescribed structure. Legislation is still pending which would grant the right of any trade union to be governed by its own by-laws without requiring that union rules correspond to those of the GFTU.

Strikes are not prohibited (except in the agricultural sector), but in practice they are effectively discouraged. There were no reported strikes in 1994, as was also the case in 1993 and 1992. There is at least one person who has been in detention for 13 years for involvement in a strike in 1980. He was tried only at the end of 1992. Some members of the Syrian Engineers' Association who were arrested because of the strike action in 1980, along with Doctors' Association members arrested at the same time reportedly remain in detention.

As with other organizations dominated by the Ba'th Party, the GFTU is charged with providing opinions on legislation, devising rules for workers, and organizing labor. The elected president of the GFTU is a senior member of the ruling Ba'th Party and a member of the party's highest body, its regional command. With his deputy, he participates in all meetings of the cabinet's ministerial committees on economic affairs. While the unions are used primarily to transmit instructions and information to the labor force from the Syrian leadership, elected union leaders also act as a conduit through which workers' dissatisfaction is transmitted to the leadership. The GFTU is affiliated with the International Confederation of Arab Trade Unions.

In June 1992, the U.S. Trade Representative suspended Syria's duty-free privileges under the U.S. Generalized System of Preferences (GSP) due to its worker rights practices. The Syrian government has not made sufficient legislative and practical changes to prompt a reconsideration of the suspension.

b. *The Right to Organize and Bargain Collectively.*—In the public sector, unions do not normally bargain collectively on wage issues, but union representatives participate with the representatives of the employers and the respective ministry to establish sectoral minimum wages according to legally prescribed cost-of-living levels. Workers serve on the board of directors of public enterprises, and union representation is always included on the boards. Unions also monitor and enforce compliance with the labor law.

In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. Under the law, unions may engage in negotiations for collective contracts with employers. The International Labor Organization's Committee of Experts (COE) noted Syria's continuing resistance to revising a section of the labor code which allows the Minister of Labor and Social Affairs to refuse to approve a collective bargaining agreement and to annul any clause likely to harm the economic interests of the country. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests or those of their members (individually or collectively) in cases involving labor relations. Union organizations may also claim a right to arbitration. In practice, due to the relatively small size of Syrian private sector enterprises, labor disputes are generally settled informally. Social pressure to be seen as fair and generous are powerful factors in determining owners' treatment of workers.

Workers are protected by law from anti-union discrimination, and there were no reports that it was practiced. (See also Section 6.E).

There is no union representation in Syria's seven free trade zones, and firms in the zones are exempt from Syrian laws and regulations governing the hiring and firing of workers, although some provisions concerning occupational health and safety, hours of work and sick and annual leave do apply.

c. *Prohibition of Forced or Compulsory Labor.*—There is no Syrian law banning forced or compulsory labor; such practices may be imposed in punishment, usually in connection with prison sentences for criminal offences, under the Economic Penal Code, the Penal Code, the Agricultural Labor Code and the Press Act. There were no reports of forced or compulsory labor involving children or foreign or domestic workers.

d. *Minimum Age for Employment of Children.*—The minimum age in the predominant public sector is fourteen, though it is higher in certain industries. The minimum age varies more widely in the private sector. The absolute minimum age is 12, with parental permission required for children under age 16 to work. Children are forbidden to work at night. The Ministry of Social Affairs and Labor is responsible for enforcing minimum age requirements, but the number of labor investigators is not adequate.

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, and, as a result, many workers take additional jobs, open businesses, or rely on extended families for support. There is no single minimum wage in the private sector for permanent employees. According to the 1959 Labor Law, minimum wage levels in the private sector are set by sector and are fixed by the Minister of Social Affairs and Labor. Recommendations are put to him by a committee, including representatives of both the Ministries of Industry and Economy, as well as representatives of the employers' association and the employees' unions. Following substantial cuts in government subsidies of foodstuffs in April, the government raised public sector minimum wages to $50 per month. Shortly thereafter, the Minister of Labor decreed an average private sector minimum wage of $44 per month. In practice, private sector monthly minimums are not less than that in the public sector. In both the public and private

sector, the Ministry of Social Affairs and Labor is responsible for enforcing minimum wage levels.

The Syrian labor law extensively regulates conditions of work. There are regulations that severely limit the ability of an employer to fire an employee without due cause, an issue that the employer may take to a labor committee. Labor committees are composed of representatives of the municipality, the Ministry of Social Affairs and Labor, and the union, as well as a judge and the employer. In the majority of cases, such labor committees have decided in favor of the employee. Workers, once hired, can not easily be fired. In practice, workers also have exercised their right to contest even planned dismissals in the labor committees. One exception in the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job-related injuries. Small private firms and businesses commonly employ day laborers in order to avoid the costs of permanent employees who are well protected even against firing.

The statutory workweek consists of six 6-hour days, although in certain fields in which workers are not continuously busy, a 9-hour day is permitted. Labor laws also mandate a full 24-hour rest day per week. Public laws mandate safety standards in all sectors, and managers are expected to implement them fully. A draft legislative decree is pending with the president of the council of ministers to provide compensatory rest for those who have to work on the weekly rest day, thus bringing the law into conformity with the international labor code. The ILO has also noted that a provision of the labor code allowing workers to be kept at the workplace for up to 11 hours per day could lead to abuse. In practice, the public sector is in conformity with the schedule noted above. There were no reports of private sector employees having to work as many as 11 hours per day. A special department of the Social Security Establishment works at the provincial level with inspectors at the Ministries of Health and Labor to ensure compliance with safety standards. In practice, workers have occasionally taken employers to judicially-empowered labor committees to win improvements in working conditions that affect their health.

Foreign workers theoretically receive the same benefits but are often reluctant to press claims because employees' work and residence permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the government system. Some foreigners are employed illegally as domestic servants in Syria. Residence permits are legally granted only to diplomats who employ servants, but some senior officials are also able to acquire the necessary permits.

f. *Rights in Sectors with U.S. Investment.*—There is no direct U.S. investment, other than oil exploration and development, in Syria. US firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[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/Insurance/Real Estate		0
Services		0
Other Industries		([1])
TOTAL ALL INDUSTRIES		355

[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 U.S. dollars unless otherwise noted]

	1992	1993[1]	1994[2]
Income, Production and Employment:			
Real GDP (1990 base)[3]	14,581	14,960	15,723
Real GDP Growth (pct.)	8.1	2.6	5.0
GDP (at current prices)[3]	16,470	15,190	15,965
By Sector:			
Agriculture	2,560	2,003	1,410
Manufacturing	2,474	2,211	2,909
Nonmanufacturing	1,824	1,575	1,752
Tourism	720	676	887
Services	3,964	3,582	4,788
Real Per Capita Income	1,742	1,496	1,846
Labor Force (millions)	2.50	2.56	2.77
Unemployment Rate (pct.)	16.0	16.2	16.4
Money and Prices:			
Money Supply	3,392	2,866	3,101
Commercial Interest Rates	Max 14	Max 14	Max 14
Savings Rate (pct.)	Avg 8	Avg 8	Avg 8
Consumer Price Index	187.8	196.2	205.4
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate (USD/TD)	1.20	1.02	1.02
Balance of Payments and Trade:			
Total Exports (FOB)[4]	4,283	4,073	4,969
Exports to U.S.	36.7	31.0	27.2
Total Imports (CIF)[4]	6,827	6,366	6,640
Imports from U.S.	338.8	415.2	354.0
Aid from U.S. (FY basis)	26.2	14.9	1.1
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	8,220	7,655	9,009
Debt Service Payments	1,387	1,391	1,637
Gold Reserves	5.2	4.4	4.4
Foreign Exchange Reserves	1,080	816	1,133
Balance of Payments	60.0	102.0	204.4

N/A—Not available.

[1] Some 1993 figures are less than 1992 figures when converted into USD values due to a devaluation of the Tunisian dinar in 1992–93.

[2] 1994 Annual figures are estimates based on data available through June, 1994.

[3] GDP at factor cost.

[4] Merchandise trade.

1. General Policy Framework

Tunisia has a mixed economy composed principally of agriculture, tourism, manufacturing, hydrocarbon extraction and phosphate mining. The largest sector is services, comprising about 33 percent of GDP. Textiles are now the largest source of foreign exchange, earning an estimated USD 1.9 billion in 1994. Tourism will bring another USD 887 million of foreign exchange into Tunisia this year. The manufacturing sector comprises about 15 percent of GDP, and consists primarily of textiles and food processing. The nonmanufacturing industrial sector accounts for 12 percent of GDP, and consists principally of phosphate mining and hydrocarbon extraction. Agriculture comprises about 15 percent of GDP. A severe drought caused widespread crop failures in 1994. The cereal harvest was down 60 percent from 1993. In addition, the citrus and olive crops were hurt by adverse weather conditions.

In late 1994, the government predicted 5.0 percent GDP growth for the year. This decrease from the 6.1 percent growth rate predicted at the start of the year is largely the result of the poor agricultural harvests. However, exports are up 22.5 percent, and inflation is being held to 4.7 percent.

Tunisia completed a seven-year structural reform program in 1993 which emphasized export-led growth through price and import liberalization, privatization of pub-

licly held companies, financial sector reform, the attraction of foreign investment, and diversification of the economy. In 1994, Tunisia continued to liberalize its 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 (BIT) dealing with the treatment of American companies in Tunisia, expropriation issues, remittance of profits and international arbitration of disputes.

Fiscal Policy: The 1994 Tunisian government budget provided for 11.4 percent increase in expenditures and 11.4 percent increase in revenues. The deficit was financed through both international and domestic borrowing. Government policy called for an expanding economy to cope with deficit problems, and the trend in recent years is favorable. In 1993, the deficit was USD 364 million, equal to 2.4 percent of GDP; in 1994, it was USD 326 million, 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 1993, it was 4.5 percent. In 1994, it was only slightly higher at 4.7 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

On March 1, Tunisia instituted a foreign currency market, making it possible for individual banks to set currency prices and trade with other banks. Although the Central Bank of Tunisia (BCT) issues a reference rate each day, the majority of Tunisian banks bypass the BCT, marginalizing the role of the BCT in foreign currency transactions. Earlier this year, industry sources described a smooth transition to an open currency market. The principal currencies quoted against the Tunisian dinar (TD) are the U.S. dollar, the deutsche mark, and the French franc. The rate has varied considerably over the past 13 years from a high in 1979, when the Tunisian dinar equaled USD 2.47, to a low in 1993, when it equaled USD 0.98. In 1994, the rate average was about TD 1 to USD 1.02.

3. Structural Policies

In the mid-1980s, Tunisia faced rising unemployment, stagnant economic growth, and dwindling foreign exchange reserves. The domestic economy was protected and inefficient, and the government ran unsustainable budgetary deficits. A severe balance of payments crisis in 1986 finally prompted the government to undertake structural reforms sanctioned by the International Monetary Fund (IMF) and the World Bank. To date, those reforms have enjoyed significant success, and the Tunisian government plans further reform, especially in privatizing still numerous state-controlled enterprises.

Tax Policies: Import regulations were loosened considerably this year. Fully 90 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 were cut considerably. Tunisia decreased the maximum customs tariff almost 80 percent by 1991. Total taxes on imported goods have not decreased at the same rate because a value added tax (VAT), introduced in 1988, is equally applied to imports and local products.

The only taxes significantly effecting U.S. exports to Tunisia are import tariffs. Through the structural adjustment program, Tunisia 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. Although the government planned to end the surcharge December 31, 1991, it was extended through 1992. Despite repeated assurances during 1992 and 1993 that the surcharge would be terminated, it still remained in effect during 1994.

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, 10 percent in 1994, and eliminated by 1995. By 1995, the average tariff rate is expected to decline 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 considered to be tariff barriers. The only additional minor charge on imports is a very small customs user fee of USD 4.08 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 competitive-

ness 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: Tunisia's Unified Investment Code, effective since January 1, 1994, replaced five former codes. The Code is intended to simplify investment and direct it into high priority industries. The financial services, mining and energy industries are considered unique, and are covered by existing legislation.

The new code applies to both domestic and foreign investors with two exceptions. Foreign investors may only lease agricultural land and any enterprise with foreign ownership of over 50 percent must receive government approval for investment. Under the new code, potential investors do not need prior government approval. They will receive a tax exemption on 35 percent of reinvested profits and income. The customs duty on imported capital goods is reduced to 10 percent. Purchases of capital goods are exempt from the value added tax (VAT) and the consumption tax. Finally, investors may use an accelerated depreciation schedule for long-term capital.

In addition, businesses producing solely for export have special benefits. They may claim a 10 year tax exemption on 100 percent of income and profits, reduced to 50 percent of income and profits after 10 years. Exporting businesses may import all needed materials, and may sell up to 20 percent of their production on the domestic market without losing their status as an exporter. Finally, these companies may employ four foreign executives without prior government approval.

Regulatory Policies: Production standards are not a major obstacle for foreign investors. The quality of goods manufactured solely for export is often superior to items produced for the local market. The Tunisian Office for Commercial Expansion (OFFITEC) carries out quality control procedures on items for export. Imported and exported food items are subject to sanitation and health controls.

4. Debt Management

In 1994, total public debt service increased by 17.7 percent. External debt service increased by 19.4 percent while service on internal public debt increased by 15.7 percent. This increase stems principally from the devaluation of the Tunisian dinar in 1993. 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 USD 1.64 billion dollar debt service payment constitutes 27 percent of the government budget. Debt service as a percentage of exports of goods an 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 Tunisia's prudent overall debt management policy is that Tunisia has never rescheduled any of its debt. The deficit is financed through concessionary lines of credit from its major trading partners, and loans from official multilateral creditors such as the World Bank and the African Development Bank. The Central Bank has also moved toward more sophisticated debt portfolio management 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.

Historical and geographical factors have given Tunisia a special relationship with Europe. It has bilateral trade agreements with all of its major European trading partners, France, Germany and Italy being the largest. Tunisia also frequently adopts European product standards, a policy that works to the disadvantage of U.S. exporters.

The 1992 Helsinki Accord among OECD countries limited their concessional aid financing. However, France, Italy and others maintain credit facilities to promote exports of their products. In addition, EXIM Bank financing is available for government sales. Exporters to private concerns may be able to take advantage of a new Citibank credit facility.

Tunisia's leading supplier in 1993 was France (USD 1.6 billion), followed by Italy, (USD 1.15 billion), and Germany (USD 821 million). The United States was in fourth place with USD 303 million in 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 1993.

There exist real possibilities for increasing the level of U.S. exports to Tunisia in areas such as environmental services, construction equipment, telecommunications, and packaging machinery and equipment.

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 to improve the productivity and competitiveness of companies producing for export. Only companies legally incorporated in Tunisia are eligible for these subsidies: these 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, and the Berne Convention for the Protection of Literary and Artistic Works.

The Tunisian National Institute of Standardization and Industry (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 INNORPI.

There are no active cases of intellectual property rights disputes with Tunisia. However, the unauthorized use of foreign trademarks, especially in cheap copies of clothing and sporting goods, continues to be a problem as does the unauthorized duplication of music and video cassettes.

8. Worker Rights

a. *Right of Association.*—The Tunisian constitution and the labor code stipulate 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 regulations which have to some extent restricted their freedom of action. The UGTT's membership includes persons associated with all political tendencies, though a campaign against Islamists was effective in removing Fundamentalist holding union offices. The current leadership follows a policy of cooperation with the government and its structural adjustment program. There are credible reports that the UGTT receives substantial subsidies from the government to supplement the modest officially-mandated monthly contributions from UGTT members and funding from the national social security account.

Dissolution of a union requires action by the courts. There is no requirement for a single trade union structure; the fact that Tunisia has a single labor organization (the UGTT) is a result of historical circumstances, not government action. However, establishment of a rival labor union would require government authorization. The government has decreed that UGTT member federations are the labor negotiators for collective bargaining agreements that cover 80 percent of the private sector work force, whether unionized or not.

Unions, including those of civil servants, have the right to strike, provided 10 days' advance notice is given and the UGTT approves. However, these restrictions on strikes are rarely observed in practice. In recent years, the majority of strikes were illegal because they were not approved in advance. In 1993, there were 68 legal strikes and 445 illegal strikes. The government did not prosecute workers involved in illegal strike activity. Tunisian law prohibits retribution against strikers, but some employers punish strikers who are then forced to pursue costly and time-consuming legal remedies to protect their rights. Labor disputes are settled through conciliation panels on which labor and management are equally represented. The 1994 labor code reform set up tripartite regional arbitration commissions, which settle industrial disputes when conciliation fails, to replace the former single arbiter system.

The 1994 report of the International Labor Organization's (ILO) Committee of Experts (COE) mentioned possible government violations of ILO Convention 29 on forced labor, but noted the stated intention of the President to abolish the penalty of "rehabilitation through work" on state work sites.

Unions in Tunisia are free to join federations and international bodies. The UGTT is a member of the International Confederation of Free Trade Unions (ICFTU) and various regional groupings.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is protected by law and practiced throughout the country. Wages and working conditions in Tunisia are set through negotiation by the UGTT member

federations and employer representatives of approximately 47 collective bargaining agreements which set standards applicable to entire industries in the private sector. The UGTT is by law the labor negotiator for these agreements, which cover 80 percent of the private sector work force, whether unionized or not. The government's role in concluding these agreements is minimal, consisting mainly of lending its good offices if talks appear to be stalled. The government must approve the collective bargaining agreements (although it cannot modify them) and publish them in the official journal before these agreements acquire legal validity. No agreement between a union and an individual firm may be concluded unless there already exists an agreement applicable to that firm's economic sector.

The UGTT also negotiates with various ministeries and 208 state-run enterprises on behalf of public sector employees. By 1994, the UGTT had concluded three-year public and private sector collective bargaining agreements calling for an average 5 percent annual wage increase.

Anti-union discrimination by employers against union members and organizers is prohibited by law, and there are mechanisms for resolving such disputes. However, the UGTT has complained about what it claims are increasingly vigorous anti-union activities by private sector employers, particularly the firing of union activists and, as a pretext to avoid unionization, employers' use of temporary workers, which in certain factories, especially in the textile sector, account for up to 80 percent of the work force. The labor code extends the same worker rights protection to temporary workers as to permanent workers, but its enforcement in the case of the temporary workers is much more difficult. A 1994 labor code revision called for the creation of a tribunal to hear cases involving alleged unjustified firing of workers. Compensation floor and ceiling levels were set.

Two export processing zones, authorized by a 1992 law, have not yet begun operations. Workers in other export firms have the same right to organize, bargain collectively, and strike as those in non-export firms. The unionization rate is about the same. The state pays the employer contribution to the social security system if the firm produces primarily for export.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is not specifically prohibited by local law, but there have been no reports of its practice in recent years.

d. *Minimum Age of Employment of Children.*—For manufacturing, the minimum age for employment is 15 years; in agriculture it is 13. Tunisian children are required to attend school until age 16. Over 2.1 million children enrolled in Tunisian schools in fall 1994. Inspectors from the Social Affairs Ministry check the records of employees to verify that the employer complies with the minimum age law. Despite this law, young children often perform agricultural work in rural areas and sell food and other items in urban areas. UGTT officials report that small enterprises in the informal sector (street vendors, day laborers, etc.) violate the concern that child labor–frequently disguised as apprenticeship–still exists, principally in the traditional craft sectors such as ceramics and stone carving. Young girls from rural areas are sometimes placed as domestics in urban homes by their fathers, with the fathers collecting their children's wages. Workers between the ages of 14 and 18 are prohibited from working from 10 p.m. to 6 a.m. Children over 14 may work a maximum of 4.5 hours a day. The combination of school and work may not exceed 7 hours.

e. *Acceptable Conditions of Work.*—The labor code provides for a range of administratively determined minimum wages. An agricultural and industrial minimum wage increase in August kept pace with the rise in the cost of living. When supplemented by transportation and family allowances, the minimum wage covers essential costs for a worker and his family. Effective August, 1994, the minimum monthly industrial wage is roughly USD 130 (129 TD) for a 40-hour work week and USD 147 for a 48-hour week. The minimum agricultural wage was set at nearly USD 4.50 per day.

Tunisia's labor code sets a standard 48-hour workweek for most sectors and requires one 24-hour rest period. The workweek is 40 hours for those employed in the energy, transportation, petrochemical and metallurgy sectors.

Regional labor inspectors are responsible for enforcing standards. Most firms are inspected about once every two years. However, the government often encounters difficulty in enforcing the minimum wage law, particularly in non-unionized sectors of the economy. Moreover, according to a 1992 UGTT study, there are approximately 240,000 workers employed in the informal sector, which falls outside the purview of labor legislation.

The Social Affairs Ministry has an office with responsibility for improving health and safety standards in the work place. There are special government regulations covering many hazardous jobs–e.g. mining, petroleum engineering, and construction.

Although the ministry maintains offices throughout the country, these regulations are enforced more strictly in Tunis than in other regions, where much work, especially in construction, is performed in the informal sector. Working conditions and standards tend to be better in firms that are export-oriented than in those producing for the domestic market. Occupational safety improved considerably in 1993. Reported work place accidents declined 17 percent to 30,645, perhaps due to an intensive public awareness campaign in the media. Workers are free to remove themselves from dangerous situations without jeopardizing their employment, and then may take legal action against employers who retaliate for exercising their right.

9. Extent of U.S. Investment in Goods Producing Sectors

U.S. investment in Tunisia is growing, but an accurate sectoral breakdown is unavailable. Currently, total U.S. investment in Tunisia is an estimated USD 50 million. The majority is invested in the petroleum sector, but U.S. corporations are increasing investment in other areas including telecommunications and pharmaceuticals.

UNITED ARAB EMIRATES

Key Economic Indicators

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

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1985 prices)	29,523	29,041	N/A
Real GDP Growth (pct.)	−0.9	−1.6	N/A
GDP (at current prices)	35,456	35,865	N/A
By Sector:			
Agriculture	744	774	N/A
Mining.			
Crude Oil	14,470	13,988	N/A
Others	95	101	N/A
Manufacturing	2,708	2,966	N/A
Electricity/Water	782	806	N/A
Construction	3,029	3,154	N/A
Wholesale/Retail Trade/Restaurants/Hotels	3,547	3,645	N/A
Transport/Storage/Communication	1,953	2,013	N/A
Finance/Insurance	1,752	1,814	N/A
Real Estate	2,228	2,310	N/A
Other Services	798	847	N/A
Imputed Bank Service Charges	−730	−781	N/A
Government Services	3,917	4,053	N/A
Household Domestic Services	163	174	N/A
Net Exports of Goods & Services [1]	3,043	183	N/A
Real Per Capita GDP (1985 prices/USD 000s)	17.63	17.22	N/A
Labor Force (000s)	769.30	794.40	N/A
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply	4.4	−1.6	[2] 1.6
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	22.8	17.1	N/A
Retail Inflation	3.5	4.5	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (1985=100)	120.1	123.5	N/A
Exchange Rate (USD/dirham)	3.671	3.671	3.671
Balance of Payments and Trade:			
Total Exports	23,944	23,563	N/A
Exports to U.S.	871.9	774.5	[3] 231.1
Total Imports	17,434.0	19,613.0	N/A
Imports from U.S.	1,552.4	1,811.4	[3] 748.6

Key Economic Indicators—Continued

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

	1992	1993	1994
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Debt Service Payments (paid)	0	0	0
Gold and Foreign Exch. Reserves	5,893.8	6,286.2	[4] 6,824.6
Trade Balance	6,510.5	3,949.9	N/A
Trade Balance with U.S.	680.5	1,036.9	[3] 517.5

N/A—Not available.
[1] Net exports of goods and services is the current account balance.
[2] 1992 and 1993 December to December; 1994 December to June
[3] 1994 figure is January–June.
[4] 1992 and 1993 figures are fourth quarter; 1994 figure is for May.
Source: All figures are from UAE Ministry of Planning and UAE Central Bank sources, with the exceptions of those on trade with the U.S., which are from U.S. Department of Commerce, and gold and foreign exchange reserves, which are from the International Monetary Fund (IMF) International Finance Statistics (IFS).

1. General Policy Framework

The UAE is a federation of seven emirates. The individual emirates retain considerable power over legal and economic matters, most significantly over ownership and disposition of oil resources. The federal budget is largely derived from transfers from the individual emirates. Abu Dhabi and Dubai, the most prosperous emirates, contribute the largest shares.

Oil production and revenues from the sale of oil constitute the largest single component of GDP. Consequently, rising or declining oil prices have a direct effect on GDP statistics and an indirect impact on government spending but may, nevertheless, be less obvious in terms of overall economic activity. In 1993, real per capita GDP in Abu Dhabi, the emirate with the most oil, was $20,664. Ajman Emirate's real per capita 1993 GDP of $4,257 was the smallest of the seven. Real per capita GDP fell in every emirate in 1993, for the third consecutive year.

Economic activity in the UAE depends on developments in the oil sector, which accounted in 1993 for 39 percent of GDP, 51 percent of export revenue, and 79 percent of government revenues, according to Ministry of Planning and Central Bank sources.

Government fiscal policies aim to distribute oil wealth to UAE nationals by a variety of means. Support from the wealthier emirates of Abu Dhabi and Dubai to less wealthy emirates is done through the federal budget, largely funded by Abu Dhabi and Dubai, and by direct grants from the governments of Abu Dhabi and Dubai.

Federal commercial laws promote national ownership of business throughout the country. Foreign business, except those seeking to sell to the UAE Armed Forces, must have a UAE national sponsor. Agency and distributorship laws require that a business engaged in importing and distributing a foreign-made product must be 100 percent UAE national-owned. Other businesses must be at least 51 percent owned by nationals. A 1994 law extended these requirements to service businesses for the first time.

Within the Emirate of Dubai, companies locating in the Jebel Ali Free Zone (JAFZ) are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE outside the JAFZ.

Certain sectors are closed to new private sector investment, including oil and gas operations and related industries, such as petrochemicals, and electricity generation/water desalination.

The Abu Dhabi and Dubai governments sustain the non-oil sector in part by spending oil revenues on development projects. Foreigners are not permitted to own real estate in Abu Dhabi or Dubai, and in Abu Dhabi 90 percent of residential and commercial construction is carried out by a government agency that builds and manages commercial and residential rental property on behalf of nominal national landlords.

There are no taxes on UAE nationals and no income taxes on the large expatriate population, although fees for government services, including health care, were increased substantially for expatriates and slightly for nationals in 1994. Most services, including utilities, health care, education, and food remain heavily subsidized

by the government, although more so for nationals than expatriates. Most salaried nationals work in the public sector, where salaries are higher than in the private sector and work is less demanding.

The authorities attempt to maintain wealth distribution without generating inflation or drawing down reserves accumulated in years of higher oil prices. This is not always possible. The authorities' response to the oil price decline of 1985–86 was to draw down foreign assets and decrease capital spending. The oil price decline of 1993–94 is comparable to that of 1985–86. This time, while we believe the authorities are drawing down reserves, they are also adopting new and previously untried measures to raise revenue and cut expenditures.

These include, as indicated, raising fees, primarily on expatriates, who make up about 70 percent of the population. Services expatriates will pay more for include visas, residence permits, water, electricity, and medical care. Expatriates now pay an annual tax of $1300 for each employed household domestic. The federal government budget has been frozen at its 1993 level through 1995. Abu Dhabi emirate announced in mid-1994 that its budget would be cut by 20 percent from planned levels. Emirate authorities announced later that an additional 20 percent would be cut in 1995.

Privatization had not been implemented by October 1994, although there is scope for it and many observers believe that it will be introduced in the near to medium term. The federal and individual emirate governments own many enterprises outright and own shares in others. A likely candidate for early privatization is government-owned bank shares. The Central Bank in 1994 drafted a bill authorizing an official stock exchange, but as of October the cabinet had taken no action on it.

The principal function of the UAE Central Bank is to regulate commercial banks. Within the past three years, the Central Bank has increased the degree of its regulatory activities, through issuing circulars and then following up on them with enforcement measures. The Bank's ability to regulate is limited however by the fact that some of the banks are owned by interests that are more powerful than the Bank and over whom it has little or no authority.

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 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, has been 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. However, the dirham's relationship with the U.S. dollar has been kept at a fixed rate. 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 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 weakness of the U.S. dollar in 1994 has given U.S. exports an edge in the UAE market, as the dirham prices of competing products from industrialized Europe and Japan have risen.

3. Structural Policies

There have been several notable changes in the regulatory framework in 1994. New customs rules took effect on August 1, 1994. A customs duty of four percent on the CIF value of imports is to be collected in full on items that are not exempt. This duty does not apply to the higher tariffs on tobacco and alcohol. The list of exempt items is lengthy and includes items imported by the rulers or the government, items imported from Gulf Cooperation Council (GCC) states, religious materials, items imported by airlines, items imported by charitable institutions, medi-

cines and pharmaceuticals, many different kinds of food, items to be re-exported, farm machinery, construction materials, and newspapers and periodicals.

Other changes in 1994 include: a ban on issuance of licenses authorizing the establishment of 42 different kinds of small business; increased fees, particularly for expatriates; a reduction in the number of expatriates permitted to bring family members with them to the UAE; and an increase in delay penalties applicable to contracts with the UAE federal government.

The UAE Central Bank in 1994 issued an update of a circular it had issued in 1993 on regulation of large exposures. The 1993 circular had restricted exposure to one individual or group to seven percent of a bank's capital. The revised circular defined exposure as funded exposure. It also exempts UAE governmental borrowers from the limits and permits larger exposures in interbank lending. Foreign banks, which had objected to the 1993 circular, are somewhat more satisfied with the changes, but will still have to reduce their funded exposures to the principal customers or move their assets offshore.

The UAE began issuing ten-year, multiple entry visas to U.S. passport holders in 1994. In addition, the UAE now permits certain nationalities of expatriate residents of other Gulf Cooperation Council countries, among them U.S. citizens, to enter the UAE without having first obtained visas.

With the exceptions of those levied on foreign banks and oil companies, there are no income taxes levied in the UAE.

Prices for most items are determined by market forces. Exceptions include utilities, educational services, medical care, and agricultural products, which are subsidized.

4. Debt Management Policies

The UAE federal government has no official foreign debt. Some individual emirates are believed to have foreign commercial 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 and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the Central Bank.

External assistance is provided by the federal government, individual emirate government agencies, individual rulers, and private contributors. No comprehensive figures are available. The largest aid donor within the UAE, the Abu Dhabi Fund for Development (ADFD), currently is providing financing worth almost DH 2.8 billion (USD 763 million) for 29 developmental projects in 13 Arab countries.

5. Significant Barriers to U.S. Exports

The regulatory and legal framework 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 products for distribution within the UAE must be 100 percent owned by a UAE national. Subsidies for manufacturing firms are only available to those with at least a 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, however, 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, however, 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 future business activity in the UAE. Foreigners cannot 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. Retendering 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 joined the GATT in 1994.

7. Protection of U.S. Intellectual Property Rights

In 1992, the UAE passed three laws pertaining to intellectual property rights (IPR) protection: a copyright law, a trademark law and a patent law. The UAE began enforcing the copyright law on September 1, 1994. The government began registration of trademarks and patents in 1993. Most losses to U.S. firms in the UAE have been to owners of copyrights, not trademarks or patents, although there have been occasional problems with trademark fraud and in obtaining IPR protection for certain products, such as pharmaceuticals. Since UAE patent law protects processes, not products, some U.S. firms are concerned that there could be unauthorized manufacture and distribution of their products. In late 1994 UAE authorities were considering revisions to the patent law to address coverage of product patents.

8. Worker Rights

a. *The Right of Association.*—UAE law does not grant workers the right to organize unions or to strike. Similarly, it is a criminal offense for public sector workers to strike. Foreign workers, who make up the bulk of the workforce, would risk deportation if they attempted to organize unions or to strike.

b. *The Right to Organize and Bargain Collectively.*—UAE law does not grant workers the right to engage in collective bargaining, and it is not practiced. Workers in the industrial and service sectors are normally employed under contracts that are subject to review by the Ministry of Labor and Social Affairs. The purpose of the review is to ensure that the pay will satisfy the employee's basic needs and secure a means of living. 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.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and not practiced. However, foreign workers may be recruited in their own countries by unscrupulous agents who bring them into the UAE under conditions approaching indenture.

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. Laws prohibiting the employment of children are enforced by the Department of Labor. Labor regulations allow contracts only for adult foreign workers.

e. *Acceptable Conditions of Work.*—There is no legislated or administrative minimum wage. Supply and demand determine compensation. 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. As noted in Section 6.B., the Labor and Social Affairs Ministry reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The standard workday and workweek are set at eight hours per day, six days per week, but these standards are not strictly enforced. Certain types of workers, notably domestic servants, may be obliged to work longer than the mandated standard hours. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 45 degrees Celsius (112 Fahrenheit).

Most foreign workers receive either employer-provided housing or a housing allowance, medical care, and homeward passage from their employers. The vast majority of such workers, however, do not earn the minimum salary of DH 5000 (approximately USD 1370) per month currently required for them to sponsor their families for a UAE residence visa (the UAE increased the minimum requirement from USD 1000 to USD 1370 in August, 1994). Further, employers may petition for a one-year ban from the workforce of any foreign employee who leaves his job without fulfilling the terms of his contract. Absent careful oversight, such an option could be misused to inhibit legitimate complaints on working conditions or reasonable requests to change employers.

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 units. 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 observed in the housing camps provided by employers. Workers' jobs are not protected if they remove themselves from what they consider to be unsafe working conditions. However, the Ministry of Labor may require employers to reinstate workers following an investigation of the alleged unsafe working conditions. 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 underbudgeted so that complaints and compensation claims are backlogged.

Foreign nationals, especially 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 manual laborers and domestic servants to the UAE, promising unrealistically high salaries, housing and other benefits and may even bring them in illegally. Such complaints may be appealed to the Labor Ministry and, if this does not resolve the issue, to the courts. However, many laborers choose not to protest or to engage in such a lengthy process for fear of reprisals or of deportation. Moreover, since the UAE tends to view foreign workers through the prism of their various nationalities, the employment policies, like immigration and security policies, have, at times, been conditioned upon national origin.

A number of accounts, including some in the local press, continue to call attention to abuses suffered by domestic servants, particularly women, perpetrated by individual employers. These have included allegations of excessive work hours, extremely low wages, verbal abuse, and, in some cases, physical abuse.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		291
Total Manufacturing		(2)
Food & Kindred Products	0	
Chemicals and Allied Products	(2)	
Metals, Primary & Fabricated	(2)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		142
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		23
Other Industries		45
TOTAL ALL INDUSTRIES		537

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

SOUTH ASIA

BANGLADESH

Key Economic Indicators

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

	1992	1993	1994[1]
Income, Production and Employment:			
Real GDP (1985 prices)	14,054	14,307	14,688
Real GDP Growth (pct.)	4.23	4.46	4.90
GDP (at current prices)	23.760	24,746	25,983
By Sector:[2]			
Agriculture	8,209	8,580	9,068
Energy/Water	363	379	N/A
Manufacturing	2,140	2,236	2,858
Construction	1,385	1,446	N/A
Financial Services	461	482	N/A
Other Services	10,850	11,341	N/A
Net Exports of Goods & Services	−1,403	−1,526	N/A
Real Per Capita GDP (1985 prices/USD)	118	119	119
Labor Force (000s)	54,300	N/A	N/A
Unemployment Rate (pct.)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2/bil. Taka)	285.3	315.4	351.3
Base Interest Rate	9.00	7.00	6.00
Personal Saving Rate	3.80	3.80	3.80
Retail Inflation[3]	5.09	1.33	1.67
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index[3]	724.40	734.30	746.2
Exchange Rate (USD/Taka)			
Official	38.15	39.15	40.00
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports (FOB)	1,901	2,138	2,347
Exports to U.S.	832	732	[4] 784
Total Imports (CIF)	3,457	3,983	3,905
Imports from U.S.	189	129	100
Aid from U.S.[5]	135	73.5	95.1
Aid from Other Countries	1,611	1,675	1,559
External Public Debt	12,605	13,178	14,027
Debt Service Payments	535.5	505.6	512.4
Gold and Foreign Exch. Reserves	1,612	2,125	2,822
Trade Balance	−1,556	−1,845	−1,558
Trade Balance with U.S.	643	603	[4] 604

N/A—Not available.
[1] Information for Bangladesh fiscal year, July 1–June 30. Data for FY94 is mostly provisional.
[2] FY94 sectoral data is estimated on the basis of sectoral GDP contribution of FY93.
[3] Inflation figures are based on Consumer Price Index.
[4] Figures are based on Bangladesh Bank calculation on total amount of commercial bank letter of credit value.
[5] Figures are for the October 1–September 30 fiscal year.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed nations. With 123 million people and a GDP of $26 billion in Bangladeshi fiscal year 1994 (FY94), per capita income (current basis) was $211. However, a low cost of living gives Bangladesh an estimated purchasing power parity per capita GDP of $1,230. 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 self-sufficiency in rice production and supplemented by significant U.S. wheat exports to Bangladesh under both PL-480 programs and commercial sales.

Despite political unrest and opposition to some elements of its economic reforms from those who benefit from the status quo, Bangladesh's democratically elected government continued its macroeconomic stabilization program throughout FY94. As a result, the overall economic condition of the country remained stable. The GDP growth rate registered 4.9 percent, an increase over FY93's growth rate of 4.4 percent. Further rate reductions in Bangladesh's tax and tariff regimes and the liberalization of the foreign exchange regime (including full convertibility of the taka on the current account) mark major progress in the government's drive toward a more open, modern, liberal economy. Inflation remained low during FY94, at 1.7 percent. Foreign currency reserves are put at approximately $2.8 billion, sufficient to cover over eight months of imports.

Government expenditures, composed of current expenditures and the annual development budget, stayed under tight control during FY94. Domestic revenues, buoyed by improved tax revenue performance, exceeded current expenditure by 31 billion taka (equivalent to $775 million). This surplus provides the government contribution to the country's development budget, termed the "Annual Development Program" (ADP). While most funding for the ADP comes from donors, the Finance Ministry claimed to have maintained Bangladesh's contribution at about 33 percent in FY94. Tax revenues reached a record high of 99 billion taka ($2,475 million), almost double the amount of FY89.

However, the impact of government stabilization and trade liberalization programs has cooled the ardor for reform among many local businessmen. Leaders of major business associations representing small and medium-sized firms claim that reforms (which increased the competition they face) have hit their pocketbooks, accounting for a 30 percent drop in sales revenue since 1991, the year the government initiated the stabilization program. These businessmen argue that current economic reforms have opened Bangladesh to a surge of imports, principally from India, and that reciprocal trade has not occurred. The local media have highlighted an apparent increase in smuggling of Indian salt, sugar, textiles, fruit, leather, livestock, automotive spares, and cement. Rather than evaluate Bangladesh's terms of trade or exchange rate policy vis-a-vis its neighbors, these trade organizations demand greater tariff protection for local industries. Using India as an example, they favor the classic protectionist "infant industry" path of industrial development, ignoring the urgent need to enhance productivity of domestic industries. Given this kind of thinking on the part of business, combined with a fractious political environment, progress on the remaining structural reforms is likely to stall.

The microeconomic picture stands in contrast to Bangladesh's record of achievement in attaining macroeconomic stability. State presence in the economy continues to be large and, despite rhetoric to the contrary, privatization has slowed to a virtual standstill. The level of investment from both private and public sources is among the lowest in Asia.

Although some liberal investment measures were taken by the government to foster private sector involvement in the energy and telecommunication sectors, the investment climate continues to be generally poor. Bureaucratic bottlenecks, poor infrastructure, corruption, labor unrest and a deteriorating law and order situation continued to discourage domestic and foreign investors. Investment, stuck at 12 to 13 percent of GDP in the FY85-FY92 period, increased slowly to over 13 percent in FY93 and is expected to reach 14 percent in FY94. It is generally held that only an investment-to-GDP ratio of 17 to 18 percent and a GDP growth rate of 6 to 8 percent can begin to make a real difference in lifting Bangladesh out of poverty. Bangladesh's current GDP growth rate of 4.9 percent, while good by historical standards, is not high enough to make a real difference to the poorest level of the economy.

2. Exchange Rate Policy

The Bangladesh Bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of a weighted basket of economic indicators. The high and rising level of foreign exchange reserves suggests the taka is undervalued. The black market rate is quite close to the official rate and has been stable. The taka's effective market value is bolstered by the large sum of foreign exchange Bangladesh receives every year through aid transfers, and by continued high levels of tariff protection and other restrictions on imports. Foreign exchange received as remittances from overseas workers (manpower exports) further strengthens the taka. Noting that the real exchange rate for the taka has risen vis-a-vis the exchange rates for the currencies of export competitors such as India and China, some economists and exporters are arguing for more rapid trade liberalization and further devaluation. The government has declared the taka to be fully convertible for current account transactions, and is considering full convertibility for capital account transactions by December 1994.

U.S. products and services have 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 1993, Bangladesh successfully completed the International Monetary Fund's three-year Enhanced Structural Admustment Facility (ESAF) program, meeting all fiscal and monetary targets. Money supply growth has been about 10 percent in FY93 and FY94. The value added tax (VAT) continued to generate higher than anticipated revenues for the government, with collections up eight percent in real terms. Government spending has also been curbed through controlling the level of subsidies provided to several money-losing parastatals, and attempting to shift more central government resources towards capital or development expenditures. According to the Central Bank, over the first quarter of FY94 Bangladesh actually experienced a bout of deflation. Continued fiscal discipline coupled with low money supply growth and increasing banking liquidity kept FY94 inflation at 1.67 percent.

While Bangladesh met ESAF monetary and fiscal targets, progress on sectoral reforms, backed by multilateral development banks and bilateral donors, has been halting. Long an easy source of funds for preferred borrowers who did not feel obliged to repay, the banking sector in Bangladesh is undergoing a wholesale reform effort under the Financial Sector Reform Project (FSRP), supported by the U.S. Agency for International Development 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 continued to make considerable progress in repricing banking services and liberalizing interest rates during FY94.

Efforts at reform often run afoul of vested interest groups, such as public sector labor unions or domestic producers in import-competing industries. The public sector accounts for only one-fourth of Bangladesh's industrial output, but it exercises a dominant influence on industry and the economy. Most public sector industries, including textiles, jute processing, and sugar processing, are perennial money losers, draining the treasury and setting high wages that their private sector counterparts often feel compelled to meet out of fear of union action. Moreover, the fact that crucial infrastructure (power, telecommunications, railroads, and the national airline) is in the public sector tends to limit private sector productivity.

4. Debt Management Policies

Assessed on the basis of outstanding principal, Bangladesh's external public debt was $14 billion as of June 1994, up six percent from the previous year's level of $13.18 billion. Given the fact that virtually all of the debt was provided on 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 $1,314 million to the United States, primarily incurred under the old PL-480 Title I and III food program. Total medium and long term

debt servicing for FY94 was $512 million, an increase over the $506 million paid out in FY93.

5. Significant Barriers to U.S. Exports

Officially, private industrial investment is completely deregulated and the government has significantly streamlined the investment registration process. However, while registration has been simplified, domestic and foreign investors typically must obtain a series of approvals from various government agencies in order to implement their projects. Bureaucratic red tape, compounded by rent-seeking activity, slows decision-making. The major exception is investment in the country's Export Processing Zones (EPZ), located in Chittagong and Dhaka. Investment proposals for the EPZs are processed quickly, and the EPZ administrators take care of the investor's needs, from tax treatment to utility hook-ups. Barriers to investment also include the country's low labor productivity, poor infrastructure, and an uncertain law and order situation. The lack of effective commercial laws makes it difficult to enforce business contracts.

The government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. Tariff reform was accelerated significantly in FY94 by the compression of customs duty rates into a range of 7.5 to 100 percent for most products, with the exception of large vehicles, alcohol, cigarettes and air-conditioners, for which duties remain in excess of 100 percent. The trade weighted average import tax rate was 43 percent in FY94 compared to 59 percent in FY92. In July 1992 the government replaced an import sales tax with a trade-neutral VAT, leaving only the 2.5 percent "advance income tax" to be removed to make customs duty the only protective instrument for most imports. The number of products subject to an import ban or restriction was reduced during FY94 and import procedures have been further streamlined. The formerly cumbersome procedure for opening letters of credit also has been simplified. Bangladesh continues to raise relatively high shares of its government revenue from customs duties. Bangladesh ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

6. Export Subsidies Policies

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 garment 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. Government financed interest rate subsidies to exporters were slightly reduced in FY91 and further reduced over FY93-FY94.

The growth in garment exports, still by far the most dynamic performer in Bangladesh's economy, continued to taper in FY94, up only 15 percent compared to a robust growth of 68 percent in FY91 and 48 percent in FY92. At over $1.4 billion in FY94, garments now comprise 60 percent of the value of Bangladesh's total exports. However, because most of the trade consists of assembling imported cloth for re-export, the total value added to garments in Bangladesh is only about one fourth of the exported value. Bangladesh is shifting a larger share of its garment exports towards the European Union, while U.S. garment imports from Bangladesh dropped slightly in FY94. Recent years have seen some challenges to Bangladeshi garment exporters from U.S. labor groups protesting child labor practices, and from U.S. garment producers alleging that some products are being dumped or covertly subsidized.

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 and are under review by governmental committees. A new "Companies Act 1994" has been approved by the parliament although it has not yet been publicly released nor implemented. Although the government has not given intellectual property rights a high priority, Bangladesh has been a member of the World Intellectual Property Organization 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 sectors, state administration workers are forbidden to join unions. However, some workers covered by this ban have formed unregistered unions. The ban also applies to security-related government employees, such as in the military and police. Bangladeshi civil servants forbidden to join unions, such as those for 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. The government has stated that labor law restrictions on freedom of association and formation of unions in the EPZ 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.

b. *The Right to Organize and Bargain Collectively.*—Unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including the ruling Bangladesh Nationalist Party.

Some unions are militant and engage in intimidation and vandalism. 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 of 1965 set up inspection mechanisms to enforce laws against forced labor, but limited resources prevent the rigorous enforcement of these laws.

d. *Minimum Age of Employment of Children.*—Bangladesh has laws that prohibit child labor. The Factories Act of 1965 bars children under the age of 15 from working in factories. In reality, enforcement of these rules in inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangladesh's, the extra income obtained by children, however meager, is 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, and this trend continued throughout 1994.

e. *Acceptable Conditions of Work.*—Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced.

The law sets a standard 48-hour workweek with one mandated day off. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. 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, totalling less than $30 million. It is concentrated in the capitalization and physical assets of a life insurance company, a commercial bank and a representative banking office, and a few other service and manufacturing operations.

The manufacturing firms with U.S. investment have unions and bargain collectively. The threat of worker layoffs due to 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 International Labor Organization 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—1993

[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		(1)
Finance/Insurance/Real Estate		1
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

INDIA

Key Economic Indicators

[Billions of U.S. dollars unless otherwise noted]
(Indian fiscal year is April 1 to March 31)

	1992/93	1993/94	1994/95 [1]
Income, Production and Employment:			
Real GDP (1981 prices) [2]	87.0	83.5	88.1
Real GDP Growth (pct.)	4.6	4.0	5.5
GDP (at current prices) [2]	243.6	252.8	289.5
GDP Share by Sector: (pct.)			
Agriculture	30.3	30.0	30.1
Energy/Water	2.5	2.5	2.5
Manufacturing	22.0	22.2	22.4
Construction	4.4	4.5	4.5
Rents	5.1	5.1	5.1
Financial Services	5.9	5.9	6.0
Other Services/Government/ Health/Education	29.8	29.8	29.4
Real Per Capita GDP (1981 prices/USD)	99.8	93.9	97.1
Labor Force (millions)	330	338	346
Unemployment Rate (pct.)	22.0	22.5	22.5
Money and Prices (annual percentage growth):			
Money Supply (M3)	15.7	18.2	17.5
Base Interest Rate	19.0	19.0	14.5
Personal Saving Rate	17.4	17.5	18.0
Retail Inflation	9.6	7.5	8.0
Wholesale Inflation (pct.)	10.1	8.4	9.0
Consumer Price Index (1982=100)	240	258	279
Exchange Rate (USD/rupee)			
Official	28.96	31.37	31.37
Parallel	31.0	33.0	32.5

Key Economic Indicators—Continued

[Billions of U.S. dollars unless otherwise noted]
(Indian fiscal year is April 1 to March 31)

	1992/93	1993/94	1994/95[1]
Balance of Payments and Trade:			
Total Exports (FOB)[3]	18.4	22.2	25.0
Exports to U.S.	3.5	4.0	4.7
Total Imports (CIF)[3]	21.7	23.2	26.7
Imports from U.S.	2.2	2.7	3.4
Trade Balance[4]	−3.3	−1.0	−1.7
Trade Balance with U.S.	1.3	1.3	1.3
Aid from U.S. (mil. USD)[4]	141	142	148
Aid from Other Countries/Institutions	3.5	3.3	3.5
External Public Debt[5]	79.2	81.4	82.0
Debt Service Payments	7.0	7.6	9.4
Gold and Foreign Exch. Reserves	9.8	19.3	25.0

[1] 1994 figures are all estimates based on data available in October 1994.
[2] GDP at market prices.
[3] Merchandise trade.
[4] Figures refer to Indian fiscal years: April 1-March 31.
[5] Excludes rupee debt of $10 billion to the former USSR.
Sources: Government of India (GOI) Economic Survey, GOI budgets, Reserve Bank of India bulletins, and the World Bank.

1. General Policy Framework

By mid-1994, India's economic reform program had achieved remarkable macroeconomic stability and substantially liberalized its trade, investment and financial sectors. India's decision in 1991 to move away from a "mixed" economy, marked by slow growth, a highly protected market and state control of the economy's "commanding heights," has potentially important ramifications for the international economy. The Indian economy is already the sixth largest in terms of purchasing power, and is home to roughly 15 percent of the world's population. India's middle-class is estimated to be between 150–250 million. A sustained period of rapid economic growth would sharply reduce poverty in India and provide major opportunities for international trade and investment.

Progress toward reducing the government's unsustainably high fiscal deficit, which helped trigger India's 1990–91 economic crisis, has been mixed. After reaching nine percent of GDP in FY 1990/91, the fiscal deficit fell to 5.7 percent of GDP in FY 1992/93 before rebounding to 7.3 percent of GDP the following year. Buoyant receipts and better expenditure controls imply a fiscal deficit of about six percent of GDP for FY 1994/95; little progress is expected in the run-up to the 1996 national elections. However, the Finance Minister and Reserve Bank of India (RBI) Governor reached agreement to place a Rs. 60 billion ($1.9 billion) cap on the issuance of ad hoc Treasury bills during 1994, the principal source of inflationary money creation. The issuance of ad hoc Treasury bills is to be abolished by FY 1997/98.

During the first six months of FY 1994/95, M3 rose by an estimated 17.5 percent. The RBI hopes to contain M3 growth at 16 percent for the year, a rate it considers consistent with a four percentage point decline in inflation and GDP growth of 5.5 percent. Government and private forecasters now predict an average retail inflation rate of about eight percent during FY 1994–95, following inflation of 7.5 percent in the previous year. The rate of increase in RBI credit to the government declined by about 50 percent during the first half of FY 1994/95. This permitted the government to reduce the Statutory Liquidity Ratio (SLR) from 33.75 in September 1993 to 31.5 percent in October 1994. Further cuts are planned as the government seeks to avoid crowding out private borrowers.

Other economic indicators underscore India's sharp break with its socialist past. Foreign investment inflows and steady export growth expanded foreign exchange reserves from $1.1 billion in June 1991 to $19.0 billion in October 1994. Reform has made India one of the most sought-after emerging markets for institutional investors. After stagnating for several years, private investment is expected to fuel industrial growth in FY 1994–95 of about 8.0 percent, and GDP growth in excess of 5.0 percent. Most importantly, India's liberalization program has received solid backing from the middle- and upper-classes that have been its early beneficiaries.

2. Exchange Rate Policy

India has utilized exchange rate policy to improve its export competitiveness. On March 1, 1993, the exchange rate was unified and made fully convertible on the trade account. On August 20, 1994, the current account was fully liberalized. Controls remain on capital account transactions, but their gradual removal is expected as foreign exchange reserves grow and India's capital markets merge more completely with international financial markets. The RBI has intervened in the foreign exchange market to rebuild reserves and defend the rupee's stability. However, foreign investment inflows have been an equally important factor in maintaining the rupee at roughly Rs. 31.5 per dollar since March 1993. As a result, the real effective exchange rate has appreciated by over 10 percent since 1992.

3. Structural Policies

Price Policies: Central and state governments still regulate the prices of most essential products, including food grains, sugar, edible oils, basic medicines, energy, fertilizers, water and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past three years, while nitrogenous fertilizer, rural electricity and irrigation costs remain well below market levels. However, acute power shortages are forcing several states to arrest the financial decline of state electricity boards by raising tariffs. The federal government has also begun to scrutinize more carefully the cost of its subsidies. Many basic food products are under a dual pricing system: some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices are usually regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India, although changes in national drug policy will sharply reduce the number of price-controlled formulations by late–1994.

Tax Policies: India's tax policies suffer from several problems common to developing countries. Public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1990 and 1993, indirect taxes accounted for 75 percent of central government tax revenue. India's direct tax base is excessively narrow, with only eight million taxpayers out of a total population of about 900 million. Marginal rates are high by international standards, although the FY 1994/95 budget lowered the corporate income tax rate for foreign companies from 65 percent to 55 percent. Tax evasion is widespread, and the government has stated that future tax rate cuts will depend upon its efforts to improve compliance. The government has begun streamlining the nation's tax regime along the lines recommended by a government-appointed committee: increasing the revenue share from direct taxes, introducing a value-added tax (VAT), and replacing India's complex tax code with one that is simple and transparent. The Indian government is also experimenting with tax incentives for specific targeted areas, such as a five-year tax holiday for power projects.

Regulatory Policies: The "New Industrial Policy" announced in July 1991 relaxed considerably government's regulatory hold on investment and production decisions. The new policies withdrew industrial licensing from all but 16 specified industries and removed most of the strictures on plant location. These reforms have been followed by more recent adjustments, including the announcement in mid-1994 of more liberal policies for the pharmaceutical and telecommunications industries. Local sourcing requirements have also been abolished. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. As many as 92 approvals are still required to establish an industrial plant; the speed and quality of regulatory decisions governing important issues such as zoning, land-use and environment can vary dramatically from one state to another. Political opposition has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of foreign and domestic investment. However, international competition for capital is gradually forcing India's federal and state governments to implement more investor-friendly regulatory policies.

4. Debt Management Policies

External Debt Management: India's reliance during the 1980's on debt-financed deficit spending to boost economic growth meant that commercial debt and Non-Resident Indian (NRI) deposits provided a growing share of the financing for India's mounting trade deficit. The result was a hefty increase in external debt, compounded by rising real interest rates and a declining term structure that reflected India's falling creditworthiness. Total external debt rose from $20 billion in FY 1980/81 to about $84 billion in FY 1990/91. Fueled by rising debt service pay-

ments, foreign exchange reserves fell to $1.1 billion during the FY 1990/91 balance of payments crisis, the equivalent of only two weeks of imports. By October 1994 India's reform program had succeeded in boosting reserves to $19.0 billion. This remarkable surge in reserves has obviated the need to renew its Standby Arrangement with the International Monetary Fund (IMF), and allowed India to prepay $1.1 billion in credits to the IMF during 1994.

External Debt Structure: India's total external debt (including ruble and defense-related debt) reached $91.4 billion by mid-1994, making India one of the world's major borrowers. India's debt-service payments exceeded $8.0 billion in each of the last four years (FY 1990/91–FY 1993/94). However, roughly two-thirds of the country's foreign currency debt is composed of multilateral and bilateral debt, much of it on highly-concessional terms. The stock of short-term debt constituted only $4.6 billion during FY 1993/94. The addition of new debt has slowed substantially, as the government maintained a tight rein on commercial borrowing and defense-related debt and encouraged foreign equity investment rather than debt financing. As a result, the ratio of total external debt to GDP fell from 39.8 percent in FY 1992/93 to about 36 percent in FY 1993/94.

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 payment difficulties exacerbated by the Persian Gulf conflict and a sharp downturn in trade with the former Soviet Union. The sharp growth in official reserves and the enthusiastic response of institutional and foreign direct investors to India's economic reforms are restoring creditor confidence. Japanese agencies recently upgraded India's rating, and in late–1994 Moody's began reviewing India's foreign currency debt rating. (India is currently rated BA2/BB plus by Moody's.) Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an Extended Financing Facility with the IMF when its Standby Arrangement expired in May 1993.

5. *Significant Barriers to U.S. Exports*

Import Licensing: U.S. exports have benefited from significant reductions in India's import-licensing requirements. Until 1992, India's extraordinarily complex import regime featured 26 commodity lists with numerous approval and licensing procedures. Since that time, the government has eliminated the licensing system for imports of intermediates and capital goods, and steadily reduced the import-weighted tariff from 87 percent to 33 percent at present. U.S. exports to India rose from $2.0 billion in 1991 to $2.8 billion in 1993, according to U.S. Department of Commerce trade data. Imports of phosphate fertilizer, kerosene and liquid propane gas were opened to the private sector in 1993. A few commodity imports (mostly bulk agricultural commodities) are still "canalized" through state trading companies, but their number is steadily declining. Notwithstanding this progress, U.S. exporters face a negative list of import items affecting roughly one-third of all tariff lines, and tariff protection that is still very high by international standards. Import licenses are still required for most consumer durables, certain electronics, pesticides and insecticides, fruits, vegetables and processed food products, breeding stock, most pharmaceuticals and chemicals, and products reserved for small-scale industry. This licensing requirement serves in many cases as an effective ban on importation.

Services Barriers: The Indian government runs many major service industries either partially or entirely, but the controls are loosening. The banking sector remains highly regulated, with only five licenses per year to be given for new foreign bank branches and/or expansion of existing operations. (Only 12 new foreign banks or bank branches were granted operating approval between June 1993 and September 1994.) India does not allow foreign nationals to practice law in its courts. The Indian government is now reviewing its monopoly of life and general insurance services, and is expected to approve domestic and foreign private sector competition during 1995. Foreign and domestic private firms dominate advertising, accounting, car rental and a wide range of consultancy services. Furthermore, policy reforms introduced in late 1994 offer foreign firms a major role in modernizing India's telecommunications sector.

Standards, Testing, Labelling and Certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestically-produced goods, except in the case of some bulk grains.

Investment Barriers: The industrial policy introduced in July 1991 achieved a dramatic overhaul of regulations restricting foreign investment. Government approval for equity investments of up to 51 percent in 35 industries covering the bulk

of manufacturing activities has been entirely eliminated. The government has rarely denied requests to increase equity stakes up to 100 percent, although it reserves this right. All sectors of the Indian economy are now open to foreign investors, except those with security concerns such as defense, railways and atomic energy. Industrial licensing applies to manufacturing activities in only 15 industries considered to be of strategic, social or environmental importance. As a result, the $5.1 billion in foreign investment approved between January 1991 and July 1994 exceeded the nominal dollar value of all foreign investment approved during the previous four decades. The United States and India have not negotiated a bilateral investment treaty, although an agreement with the Overseas Private Investment Corporation (OPIC) remains in force to protect U.S. investors. In 1992, India became the 113th country to announce it would join the Multilateral Investment Guarantee Agency (MIGA). India ratified the Uruguay Round agreements and became a founding member of the World Trade Organization (WTO) on January 1, 1995.

Government Procurement Practices: Indian government procurement practices occasionally discriminate against foreign suppliers, but they are improving under the influence of fiscal stringency. Price and quality preferences for local suppliers were largely abolished in June 1992. Recipients of preferential treatment are now concentrated in the small-scale industrial and handicrafts sectors, which represent a very small share of total government procurement. Defense procurement through agents is not permitted, forcing U.S. firms to maintain resident representation. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders.

Customs Procedures: Liberalization of India's trade regime has reduced tariff and non-tariff barriers, but it has not eased some of the worst aspects of customs procedures. Documentation requirements, including ex-factory bills of sale, are extensive and delays are frequent. Interpretations rendered by customs officials are frequently arbitrary.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a tangle of indirect subsidies remains. Exports are exempt from income and trade taxes, 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 Indian government is slowly, but steadily, revising its treatment of intellectual property rights (IPR), bringing its laws and enforcement in line with international practice. The government has traditionally contended that IPR protection should balance the interests of rights holders with those of consumers and broader "social" interests. The Special–301 investigation initiated by the United States Trade Representative in 1991 determined that Indian IPR practices — particularly inadequate patent protection—unduly burdened U.S. commerce. In response, the United States removed all Indian-origin chemical and pharmaceutical products from duty-free entry under the Generalized System of Preferences (GSP) in April 1992.

Under pressure from domestic industry, India strengthened its copyright law in May 1994, placing it on a par with international practice. The new law entered into force in late–1994. Subsequently, India's designation as a "priority foreign country" under Special–301 was revoked and India was placed on the Priority Watch list. Copyright and trademark enforcement is also rapidly improving. Classification of copyright and trademark infringements as "cognisable offenses" has expanded police search and seizure authority, while the formation of appellate boards has speeded prosecution. Parliamentary approval is expected in late 1994 or early 1995 for strict revisions in India's Trademark Bill.

Indian patent law, which was revised in 1970 to shorten patent life and end product patents for pharmaceuticals, chemicals and food products, remains a major concern for U.S. investors and exporters. Widespread patent piracy has resulted in a pronounced shortage of investment in high-tech areas, such as pharmaceutical and bioengineering research and development, where India enjoys a comparative advantage. Nonetheless, the convergence of India's economic interests with those of her major trade and investment partners may accelerate product patent introduction. The Indian government has announced that it will fully conform to the IPR-related requirements of the Uruguay Round, including the introduction of full product patent protection by the Year 2005 and TRIPs-related implementing legislation by January 1, 1995.

8. Worker Rights

a. *The Right of Association.*—India's constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are

protected by law. Unions represent roughly two percent of the total workforce, or about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively.*—Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by India's constitution; a 1976 law specifically prohibits the practice of "bonded labor." Despite implementation of the 1976 law, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age of Employment for Children.*—Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The Government of India estimates that 17 million Indian children from ages 5 to 15 work. Non-governmental organizations 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. Nevertheless, tens of thousands of children are employed in the glass, pottery, carpet and fireworks industries, among others. Resource constraints and the sheer magnitude of the problem limit ability to enforce child-labor legislation.

e. *Acceptable Conditions of Work.*—India has a maximum eight-hour work day and 48-hour work week. This maximum is generally observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment.*—U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		395
Food & Kindred Products	1	
Chemicals and Allied Products	143	
Metals, Primary & Fabricated	11	
Machinery, except Electrical	68	
Electric & Electronic Equipment	4	
Transportation Equipment	5	
Other Manufacturing	164	
Wholesale Trade		23
Banking		316
Finance/Insurance/Real Estate		(1)
Services		18
Other Industries		(2)
TOTAL ALL INDUSTRIES		759

[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

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

	FY1992	FY1993	FY1994[1]
Income, Production and Employment:			
GDP (current prices)	49,044	51,813	52,877
Real GDP Growth (pct.)	7.7	2.3	4.0
GDP Share by Sector: (pct.)			
Agriculture	26.1	24.2	23.9
Power/Gas Distribution	3.5	3.7	3.7
Manufacturing	17.8	18.3	18.6
Construction	4.1	4.2	4.2
Services[2]	48.0	49.1	49.1
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Government/Health/Education	N/A	N/A	N/A
Net Export of Goods & Services	N/A	N/A	N/A
Real GDP Per Capita (USD)	422	428	426
Labor Force (millions)	32.97	33.97	34.98
Unemployment Rate (pct.)	5.85	5.85	5.85
Money and Prices:			
Money Supply (M2)	4,525	3,345	3,088
Commercial Interest Rate (pct.)[3]	15.5	18.0	16.8
Saving Rate (pct. of GDP)	17.1	13.6	15.4
Investment Rate (pct. of GDP)	20.1	20.7	20.1
Retail Inflation (cpi–annual pct. change) 12 month average basis	9.6	9.3	11.2
Wholesale Inflation (wpi–annual pct. change) 12 month average basis	9.3	7.1	15.0
Exchange Rate (rupee/USD)			
Official (FY avg.)	24.7	25.9	29.4
Parallel	25.5	27.9	32.2
Balance of Payments and Trade:			
Total Exports (FOB)	6,762	6,782	6,715
Exports to U.S.	891	948	1,003
Total Imports (FOB)	8,998	10,049	8,549
Imports from U.S.	977	942	931
Aid from U.S.[4]	40	20	0
Aid from Other Countries	2,471	2,493	2,481
External Public Debt	18,384	20,810	22,761
Debt Service Payments[5]	2,199	2,332	2,285
Foreign Exch. Reserves (FY end)	952	461	2,305
Trade Balance	−2,236	−3,267	−1,834
Trade Balance with U.S.	−86	6	72

N/A—Not available.
[1] Pakistan's fiscal year (PFY) is July 1–June 30. PFY 1994 data covers period July 1, 1993-June 30, 1994.
[2] Includes banking, insurance, commerce, housing, storage, transportation, communication and other services.
[3] Average annual interest rate on commercial bank loans to private sector borrowers.
[4] Aid from U.S. in 1993 consisted exclusively of PL–480 funds.
[5] Excludes interest on short-term loans and IMF charges.
Source: Pakistan Economic Survey 1993/94 and State Bank Report 1993/94.

1. *General Policy Framework*

Pakistan has been on a generally steady course toward market liberalization and structural reform for the past five years. These efforts intensified in response to a deteriorating financial situation which developed in 1992/93, and as a result of the efforts of the interim government headed by former Prime Minister Moeen Qureshi (July-October 1993). Qureshi, an apolitical technocrat, pushed forward a number of economically sound but politically difficult initiatives and set a high standard for subsequent political governments. A three-year agreement concluded by the present

government with the International Monetary Fund (IMF) in early 1994 provides a policy framework and economic targets that have helped the Government of Pakistan (GOP) stay that course.

2. Exchange Rate Policy

The Pakistan rupee has been on a managed float since 1982; the central bank regularly adjusts the value of the rupee against a basket of major international currencies and uses the U.S. dollar as an intervention currency to determine other rates. The black market in foreign exchange has largely disappeared since private foreign exchange transactions are now legally sanctioned. There is an informal parallel market for foreign exchange that is not illegal. On this parallel market, there is a modest premium for attractive foreign currencies; the premium, which has decreased over the past year, generally amounts to approximately an additional .7 to 1.5 rupees per dollar (or roughly two to five percent).

In 1993–94, the GOP removed several additional foreign exchange restrictions. Effective July 1, 1994, the rupee became fully convertible on current account under IMF rules. Exchange rate reforms instituted in 1991 had essentially created convertibility on the capital account. Exchange rate policy under the managed float has contributed to an improvement in Pakistan's trade performance. Following a two-stage devaluation totaling about nine percent in July 1993, and a tightening of fiscal and monetary policy, the value of the rupee has stabilized. In a series of incremental adjustments between late July 1993 (29.85 rupees to the dollar) and late October 1994 (30.62 rupees), the rupee has depreciated against the dollar by less than three percent.

3. Structural Policies

A succession of Pakistani governments over the past six years has implemented structural reform policies which have made the economy more free and market-oriented. The two principal political parties agree on the direction of economic policy, and shifts in government have, consequently, had remarkably little impact on the overall liberalizing trend.

One principal element of structural reform has been trade liberalization. The GOP is now engaged in a sweeping tariff reduction program to force domestic firms to improve their competitiveness and take advantage of Uruguay Round benefits. From the Pakistani perspective, the key aspect of the Uruguay Round is the integration of textile trade into the GATT. The GOP is aware that, in order to benefit from global trade liberalization, Pakistan must shift to tariffs in those industrial sectors, especially textiles, which are now protected by import bans or quotas. The GOP is also reducing the maximum "all inclusive" tariff rate from 92 percent in 1993–94 to 70 percent at the start of the 1994–95 fiscal year. The maximum tariff rate is scheduled to be further reduced to 45 percent at the start of the 1995–96 fiscal year and to 35 percent one year later.

A second pillar of structural reform has been the dismantling of state control over key sectors of the economy through privatization. The GOP's role in the economy continues to shrink. In 1990, the public sector, which includes many enterprises which were nationalized in the 1970s, accounted for about 30 percent of value added in manufacturing. As of October 1994, the GOP has sold off nearly 80 of its original list of 118 public industrial companies and plans to advertise the remaining units over the next few months.

The GOP is also in the process of identifying additional units for privatization and encouraging private sector participation in the power generation and distribution, mining, utilities, insurance, banking, and airlines industries. With World Bank technical assistance, the government is setting up regulatory bodies to permit privatization of various utilities. The GOP is proceeding with a phased divestiture of Pakistan Telecommunications Corporation (PTC) and has already sold the first tranche of PTC vouchers. It is also moving forward with plans to sell two thermal power plants and one area electricity board as the first stage in the privatization of the Water and Power Development Authority (WAPDA), which provides over 80 percent of Pakistan's electricity. Portions of Pakistan's two natural gas distribution companies are also slated for divestiture.

4. Debt Management Policies

Pakistan's foreign debt continues to increase and the debt-service ratio is forecast to exceed 30 percent of export earnings in 1995. High fiscal and current account deficits over the past several years were financed by a steady increase in external debt, which reached $28 billion in 1993. This debt level was 16 percent higher than the previous year and entailed a debt-service ratio of 27.3 percent of export earnings. Pakistan has consistently met its debt service obligations in a timely fashion,

even during the foreign exchange crisis of July 1993, when foreign exchange reserves dipped to $185 million, or just over one week's worth of imports.

5. Significant Barriers to U.S. Exports

Pakistan has traditionally maintained a complex system of indirect taxes in the trade sector. High basic tariffs, additional surcharges, a variety of excise taxes, and a sales tax, with different applicability on domestic and foreign goods, combined to distort prices in domestic markets. These tariffs, established for protectionist reasons and to raise revenue, had largely become counterproductive. Many tariff rates were so high that they served principally to stimulate smuggling and corruption. Revenue collections were similarly undermined by many exemptions and concessions, both formal and informal.

Pakistan has significantly liberalized its restrictive import regime by reducing tariffs and somewhat streamlining import and export rules. However, despite efforts to streamline the import process, there continue to be complaints about complex customs clearance practices, which slow entry of goods and provide numerous opportunities for discretionary decision-making by a variety of relatively low-level bureaucrats.

6. Export Subsidies Policies

Pakistan seeks to encourage exports through rebates of import duties, sales taxes, and income taxes, as well as through concessional export financing. The GOP has an export processing zone (EPZ) scheme, under which industrial units producing value-added items are exempt from payment of customs duties, sales tax, and iqra (an Islamic education tax) surcharge on imports, provided that the industrial unit exports 50 percent of the value of its production in the first two years and 60 percent in the third year and beyond. One EPZ, in Karachi, is currently in operation. These policies appear to apply equally 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 is a member of the World Intellectual Property Organization (WIPO) and a party to two major international intellectual property rights conventions: the Berne Convention and the Universal Copyright Convention. However, it is not a party to any major conventions on patent protection. While the United States has a Treaty of Friendship and Commerce with Pakistan which guarantees national and most-favored nation (MFN) treatment for patents, trademarks and industrial property, intellectual property rights enforcement in Pakistan remains weak.

Infringement on copyrights and trademarks and the lack of coverage of product patent protection remain serious U.S. concerns. As such, in accordance with the intellectual property rights provisions of the Omnibus Trade and Competitiveness Act of 1988, Pakistan was placed on the Special 301 "watch list" in May 1989. Since that time the United States has continued to encourage Pakistan to extend laws covering intellectual property protection and to provide adequate enforcement.

Copyrights: U.S. firms have complained that, although Pakistan is a member of the Universal Copyright Convention, enforcement of its copyright law is ineffective and the penalties for violation are not severe enough. Videotape piracy is widespread and of concern to U.S. firms which are current or potential marketers of film videos in Pakistan. Pakistan recently amended its copyright statute to strengthen penalties for infringement of rights to printed texts, film works, sound recordings, and computer software; however, there has been little evidence of more vigorous enforcement.

Patents: Pakistan's patent law protects processes but not products. U.S. pharmaceutical companies have complained that this regime makes it difficult to pursue infringement cases in local courts. The language of the statute permits applications for compulsory licenses, although this seldom happens in practice. The United States has urged Pakistan to provide product patent coverage and to amend its legislation to extend the patent term and to restrict or abolish the procedure for compulsory licensing.

8. Worker Rights

a. *The Right of Association.*—The right of industrial workers to form trade unions is enunciated in statute, but in practice there are significant constraints on the formation of industrial unions and their ability to function effectively. Workers in EPZs are prohibited from forming trade unions. The Essential Services Maintenance Act permits workers in government services and state enterprises (including education, health care, oil and gas production, and transport) to form unions, but restricts some normal union activities, including the right to strike. There is no provision in

Pakistani law granting the right of association to agricultural laborers. Union members make up only about 13 percent of the industrial labor force and 10 percent of the total labor force.

b. *The Right to Organize and Bargain Collectively.*—The right of industrial workers to organize and freely elect representatives to act as collective bargaining agents is established in law. However, the right to bargain collectively is limited to legally constituted unions and is therefore constrained by the limitations on union formation described above. Collective bargaining occurs at the plant level. The Essential Services Act restricts collective bargaining and where the government determines to bar collective bargaining, individual wage boards (made up of industry, labor, and government members) determine wage levels.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is specifically prohibited by law and the Pakistani Constitution. However, bonded labor is reported to be common in the brick, glass, and fishing industries and to be found in rural construction and agricultural work. The Bonded Labor System (Abolition) Act, adopted in March 1992, outlawed the bonded labor system, cancelled all existing bonded debts, and forbade lawsuits for the recovery of existing bonded debts. However, the provinces have not yet developed a credible enforcement system to implement this statute.

d. *Minimum Age of Employment of Children.*—Child labor is common and results from a combination of severe poverty, weak laws, and inadequate enforcement. A key factor is the absence of compulsory primary education. Child labor is limited by at least four statutes and Article 11 of the Pakistani Constitution. The Employment of Children Act, 1991, defines a "child" as "a person who has not completed his 14th year of age," prohibits their employment in hazardous industries, and generally limits the length of their workdays. Although much child labor occurs in the traditional areas of family farming or small business, it also occurs in larger industries, such as carpet making.

e. *Acceptable Conditions of Work.*—Federal statutes govern labor regulations. The current monthly minimum wage is approximately $50 (1,500 rupees), but an extensive list of exempted activities limit minimum wage applicability to a minority of the work force. Statutes provide for a maximum workweek of 54 hours, rest periods, and paid annual holidays, but exempt large segments of the labor force. Enforcement of labor regulations, a responsibility of the provincial governments, has generally been ineffective. Enforcement is hampered by limited resources, corruption, and inadequate regulatory structures. In general, worker health and safety standards are poor, and little is being done to improve them.

f. *Rights in Sectors with U.S. Investment.*—Sectors with U.S. investment are characterized by generally better conditions and more free exercise of worker rights than in other sectors. These sectors tend to add greater value to production and exclude sectors with particularly poor labor records (brick kilns, carpet making, traditional agriculture, and family-[illegible] small businesses).

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993

[Millions of U.S. dollars]

Category	Amount	
Petroleum		71
Total Manufacturing		28
Food & Kindred Products	2	
Chemicals and Allied Products	29	
Metals, Primary & Fabricated	−2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		3
Banking		152
Finance/Insurance/Real Estate		([1])
Services		0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1993—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	0
TOTAL ALL INDUSTRIES	254

[1] Less than $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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