104th Congress, 2d Session | JOINT COMMITTEE PRINT | S. PRT. 104–49

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS,
COMMITTEE ON FINANCE

OF THE

U.S. SENATE

AND THE

COMMITTEE ON
INTERNATIONAL RELATIONS,
COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

BY THE

DEPARTMENT OF STATE

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



MARCH 1996

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

U.S. GOVERNMENT PRINTING OFFICE
22-970 CC WASHINGTON : 1996

H782-12
H462-4
S362-1
S382-5

For sale by the U.S. Government Printing Office
Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328
ISBN 0-16-052479-2

COMMITTEE ON FOREIGN RELATIONS

JESSE HELMS, North Carolina, *Chairman*

RICHARD G. LUGAR, Indiana
NANCY L. KASSEBAUM, Kansas
HANK BROWN, Colorado
PAUL COVERDELL, Georgia
OLYMPIA J. SNOWE, Maine
FRED THOMPSON, Tennessee
CRAIG THOMAS, Wyoming
ROD GRAMS, Minnesota
JOHN ASHCROFT, Missouri

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

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

COMMITTEE ON FINANCE

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

BOB DOLE, Kansas
JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
ALAN K. SIMPSON, Wyoming
LARRY PRESSLER, South Dakota
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
BILL BRADLEY, New Jersey
DAVID PRYOR, Arkansas
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
CAROL MOSELEY-BRAUN, Illinois

LINDY L. PAULL, *Staff Director and Chief Counsel*
MARK A. PATTERSON, *Minority Staff Director and Chief Counsel*

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
SAM BROWNBACK, Kansas
DAVID FUNDERBURK, North Carolina
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York

LEE H. HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. McKINNEY, Georgia
ALCEE L. HASTINGS, Florida
ALBERT RUSSELL WYNN, Maryland
MICHAEL R. McNULTY, New York
JAMES P. MORAN, Virginia
VICTOR O. FRAZER, Virgin Islands (Ind.)

RICHARD J. GARON, *Chief of Staff*
MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*
JOHN P. MACKEY, *Investigative Counsel*
PARKER BRENT, *Staff Associate*

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

CONTENTS

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

COUNTRY REPORTS*

AFRICA:

Angola	1
Gabon	5
Ghana	9
Kenya	14
Nigeria	19
South Africa	25

East Asia and the Pacific:

Australia	33
China	40
Hong Kong*	48
Indonesia	55
Japan	60
Korea, Republic of	67
Malaysia	74
New Zealand	80
Philippines	86
Singapore	94
Taiwan*	99
Thailand	104

Europe and North America:

The European Union	111
Armenia	118
Austria	122
Azerbaijan	126
Belarus	131
Belgium	135
Bosnia-Herzegovina	139
Bulgaria	140
Canada	146
Croatia	151
Czech Republic	156
Denmark	161
Estonia	167
Finland	171
France	176
Georgia, Republic of	181
Germany	186
Greece	190
Hungary	195
Ireland	200
Italy	206
Kazakhstan	212
Kyrgyz Republic	218

Page

Europe and North America—Continued
Latvia 221
Lithuania 225
Macedonia, Former Yugoslavia, Republic of 228
Moldova 232
The Netherlands 235
Norway 240
Poland 244
Portugal 249
Romania 254
Russia 259
Serbia and Montenegro 265
Slovak Republic 266
Slovenia 272
Spain 276
Sweden 281
Switzerland 285
Tajikistan 290
Turkey 294
Turkmenistan 300
Ukraine 305
United Kingdom 310
Uzbekistan 313

Latin America:
Argentina 319
Bahamas 323
Barbados 327
Bolivia 332
Brazil 338
Chile 346
Colombia 352
Costa Rica 359
Dominican Republic 366
Ecuador 371
El Salvador 377
Guatemala 381
Haiti 386
Honduras 390
Jamaica 396
Mexico 401
Nicaragua 408
Panama 412
Paraguay 419
Peru 423
Trinidad and Tobago 428
Uruguay 433
Venezuela 437

Near East and North Africa:
Algeria 445
Bahrain 449
Egypt 454
Iran 461
Iraq 464
Israel 466
Jordan 472
Kuwait 478
Morocco 484
Oman 489
Saudi Arabia 493
Syria 497
Tunisia 503
United Arab Emirates 507

Page

South Asia:
Bangladesh 513
India 518
Pakistan 524

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

FOREWORD

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

Modeled on the State Department's annual reports on country human rights practices, the reports are intended to provide a single, 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.

JESSE HELMS,
Chairman, Committee on Foreign Relations.

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

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

BILL ARCHER,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, March 6, 1996.

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

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

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

Hon. NEWT GINGRICH,
Speaker, House of Representatives.

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

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

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

Sincerely,

WENDY R. SHERMAN,
Assistant Secretary, Legislative Affairs.

Enclosure.

INTRODUCTION

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared a detailed report on the economic policy and trade practices of each country with which the United States has an economic or trade relationship. We have included reports on certain 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 eighth annual report. The document has grown in coverage and scope since the series began in January 1988. It now includes over 100 countries.

Each report contains nine sections.

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

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

The country reports are based on information supplied by U.S. Embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have 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 International Relations and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

1. The macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;
2. The impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;
3. Any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;
4. The management of the country's external debt and its implications for trade with the United States;
5. Acts, policies, and practices that constitute significant trade barriers to Un.ted States exports or foreign direct investment in that country by United States persons, as identified under section 181(a)(1) of the Trade Act of 1974 (19 U.S.C. 2241(a)(1));
6. Acts, policies, and practices that provide direct or indirect government support for exports from that country, including exports by small businesses;
7. The extent to which the country's laws and enforcement of those laws afford adequate protection to United States intellectual property, including patents, trademarks, copyrights, and mask works; and

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

NOTES ON PREPARATION OF THE REPORTS

Subsections a. through e. of the Worker Rights section (section 8) are abridged versions of section 6 in the *Country Reports on Human Rights Practices for 1996*, submitted to the Committees on Foreign Relations of the U.S. Senate and on International Relations of the House of Representatives in March 1996. For a comprehensive and authoritative discussion of worker rights in each country please refer to that report.

Subsection f. of the Worker Rights section highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested. A table cites the extent of such investment by sector where information is available. The Bureau of Economic Analysis of the U.S. Department of Commerce has supplied information on the U.S. direct investment position at the end of 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 (of the EU)
CCC—Commodity Credit Corporation (Department of Agriculture)
CIS—Commonwealth of Independent States
COMECOM—Council for Mutual Economic Assistance
EBRD—European Bank for Reconstruction and Development
EFTA—European Free Trade Association
EMS—European Monetary System (of the EU)
ERM—Exchange Rate Mechanism (of the EU)
ESAF—Enhanced Structural Adjustment Facility
EU—European Union
EXIMBANK—U.S. Export-Import Bank
FOREX—Foreign Exchange
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 Favored 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
TRIPs—WTO Agreement on Trade-Related Aspects of Intellectual Property Rights
UR—Uruguay Round of trade negotiations in the GATT
USD—U.S. dollar
VAT—Value-added tax
WIPO—World Intellectual Property Organization
WTO—World Trade Organization

AFRICA

ANGOLA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Nominal GDP	7,218	7,920	N/A
Real GDP Growth (percent)	−23	9.7	N/A
GDP by Sector:			
Agriculture and Fisheries	19.7	12.0	N/A
Extractive	3,540	50,900	N/A
Oil and LPG	3,440	49,900	N/A
Diamonds	100	1,000	N/A
Manufacturing	4.6	3.4	N/A
Construction	1.9	1.6	N/A
Services	19.7	18.3	N/A
Trade	13.6	10.1	N/A
Transport/Communications	2.9	2.2	N/A
Import Duties	2.1	1.5	N/A
Net Exports of Goods and Services	−636	−980	N/A
Nominal GDP Per Capita (US$)	756	810	N/A
Population (000s)	9,545	9,780	10,070
Money and Prices:			
Money Supply (M2)	359	336	[1] 253
Base Interest Rate [2]	16	16	120
Retail Inflation Rate (Luanda)	1,840	972	[3] 444
Consumer Price Index (Luanda)	31,834	341,218	[3] 1,855,500
Exchange Rate (NKZ/US$) (end-of-period):			
Official-Primary	6,500	493,484	[4] 5,920
Parallel	106,000	996,129	[4] 10,000
Informal	N/A	N/A	[4] 14,000
Balance of Payments and Trade:			
Total Exports FOB	2,901	3,001	N/A
Exports to U.S.	2,090	2,061	[1] 488.7
Total Imports CIF	1,463	1,633	N/A
Imports from U.S. FAS	168	197	[1] 40.6
AID from U.S.	56	87	93
AID from other countries	160	163	[5] 100
External Public Debt [6]	9,927	11,050	N/A
Debt Service Payments (paid)	583	N/A	N/A
Debt Rescheduled	46	161	N/A
Foreign Exchange Reserves	206	192	[1] 180
Trade Balance	1,438	1,368	N/A
Balance with U.S.	1,921	1,864	[1] 448

[1] January to March 1995.
[2] Active operations: 180–360 day credit.
[3] January to August 1995.
[4] KZR rate on November 15, 1995. The KZR replaced the NKZ in July 1995 dropping three 0's from values expressed in NKZ.
[5] January to October 20, 1995.
[6] Long, medium, and short term debt plus arrears.

1. General Policy Framework

The Republic of Angola is potentially one of Africa's wealthiest countries. Relatively sparsely populated, it has great 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 November 1994 wreaked havoc and prevented the country from realizing its economic potential. 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 decision-making further hindered development. Administrative chaos, corruption, and hyperinflation have vitiated normal economic activity and attempts at reform. Urban populations swollen by internally-displaced persons have subsisted largely on humanitarian food aid or parallel market activity. The rural population carves out a living in marginal security, surviving by subsistence farming. As a result of the near total absence of domestic production outside the oil sector most food and other consumer items are imported. 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 about 660,000 barrels per day of crude, accounting for the majority of GDP, over 90 percent of exports, and nearly 90 percent of government revenues.

The signing of the Lusaka Protocol peace accord in November 1994 provides hope for economic recovery. The Protocol provides for a ceasefire, the creation of unified armed forces, and a government of national reconciliation. The peace process is being implemented under the supervision of a United Nations Peacekeeping Mission with the assistance of three observer nations, the United States, Portugal, and Russia. The long-term effects of the war, the destruction of infrastructure, and years of economic mismanagement remain to be addressed. The end of the conflict should portend economic stabilization and growth, with some "peace dividend." Nevertheless, reconstruction is likely to be a long and arduous process. Considerable expense will be required for the creation of the unified army, reintegration into civilian society of demobilized soldiers, disarmament, de-mining, reconstruction of roads and other infrastructure, resettlement of dislocated populations, and rehabilitation of essential services.

Beginning in 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 success in implementation. A poorly thought-out liberalization of the diamond-mining industry resulted in official diamond exports declining from $286 million in 1992 to $31 million in 1993. Official diamond exports climbed back to about $75 million in 1995, but the major part of the estimated $800–900 million production of diamonds left the country through unofficial channels. The government's 1994 and 1995 Economic and Social Programs have been favorably received by donor nations and financial institutions, but their execution remains disappointing. Angola is a contracting party to the GATT and is seeking accession to the WTO.

The government budget, perpetually in deficit from heavy military expenditures, price controls, and other non-productive spending, ballooned to 38 percent of GDP in 1992 and 32 percent of GDP in 1993. The budget remained at 34 percent of GDP and the deficit alone reached 22 percent of GDP in 1994. The deficit has been financed by increasing the money supply and resorting to very expensive, oil-backed, short-term lending from commercial banks. Shortages, price controls, hyperinflation, and continuing erosion of confidence in the national currency encourage parallel market activity and widespread dependence on barter or dollar transactions.

The oil sector, the only functional part of the Angolan economy managed by the government and largely isolated from the civil war because of off-shore production, has been the focus of U.S.-Angolan trade and investment. The U.S. buys about 75 percent of Angola's petroleum exports (accounting for 7 percent of U.S. petroleum imports) and equipment for the oil sector accounts for much of U.S. sales to Angola. Angola is the United States' third largest trading partner in Sub-Saharan Africa. Given the country's huge potential, lasting peace and genuine economic liberalization could provide substantial opportunities for U.S. trade and investment, particularly in communications, energy, and transportation sectors.

2. Exchange Rate Policies

From 1978 to September 1990, the government maintained the official exchange rate for the Kwanza, a non-convertible currency, at 29 Kwanzas to the dollar. The New Kwanza (NKZ) replaced the Kwanza at par in September 1990 and was gradually devalued to NKZ 550 to the dollar by April 1992. To narrow the gap between the official rate and a parallel market rate still several times higher, the govern-

ment adopted a program of auctions in late 1992 and early 1993 that led to the further devaluation of the currency to NKZ 7,000 to the dollar. In 1994, the government began a program of foreign exchange selling at "fixing" sessions in which the central bank and commercial banks participate. The "official-primary" rate which results is used for interbank operations. A slightly higher "official-secondary" rate is earmarked for transactions between commercial banks and the public, but in general this rate is available only to people with privileged access to government officials. By early 1995, the official rate reached NKZ 500,000 to the dollar. Meanwhile, the parallel market rate rose to over NKZ 1,500,000 to the dollar.

In late May 1995 the government moved the official exchange rate to within 95 percent of the parallel market rate at NKZ 2,200,000 to the dollar, and in July 1995 the Readjusted Kwanza (KZR) replaced the New Kwanza dropping three zero's from the prices, wages, accounts, and notes denominated in New Kwanza. Exchange rates thus changed from approximately NKZ 2,200,000 to the dollar to KZR 2,200 to the dollar. Due to continued hyperinflation the parallel exchange rate rose to over KZR 10,000 to the dollar by November, while the official rate remained at KZR 5,920. Foreign exchange can be obtained at the parallel rate from commercial banks and licensed exchange houses. Rates up to 40 percent higher than the parallel rate can be obtained in the widespread informal market. The government continues to declare its intention to bridge the gap between official and parallel rates through further devaluations.

3. Structural Policies

Angola's economic potential remained in flux in 1995. Consolidation of the peace process and rising oil revenues are giving the government the chance to change its priorities from the civil war to social and economic reforms. During 1995 the government continued to focus on bringing down inflation and taking measures to stabilize the budget deficit. It also continued to make the same commitments for economic reform that it periodically has made since 1986: to converge official and parallel currency rates; make transparent the transactions which take place between parastatal oil company Sonangol, the Ministry of Finance, and the National Bank of Angola; phase out subsidies on petroleum products and other goods; and have the national bank cease credit operations and become a true central bank.

The government continued to take steps to reduce its role in the economy in 1995 and did reduce massive subsidies on fuels. However, after the threat of a general strike in September the government reintroduced subsidies and price controls on 15 essential foodstuffs and consumer products. It also continues to subsidize heavily public transport, electricity and other utilities, and to regulate profit margins on the sale of numerous products. While the government has publicly declared its desire for IMF balance of payments assistance, in December 1995 the IMF canceled a monitoring program because of Angolan non-performance.

4. Debt Management Policies

The government began substantial foreign borrowing 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. However, subsequent large payment arrears have forced major western export credit agencies to suspend or highly restrict cover to the country. The government continues to finance part of its fiscal deficit through oil-backed, short-term commercial borrowings, but pays interest rates up to three times normal rates for such financing.

Total foreign debt is estimated at over $10 billion, significantly higher than GDP and more than three times annual exports. Debt arrears are estimated at over $4.2 billion of which a little over $1 billion were accumulated in 1994 alone; $1.3 billion is owed to Paris Club creditors. 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 Angola's debt in 1990, but only about $40 million in each of 1991, 1992, and 1993, and another $161 million in 1994. 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. The lack of adequate information about petroleum-backed borrowing continues to be an obstacle to further discussions on renegotiating Paris Club debt.

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 military spending. The lack of customers with access to for-

eign exchange, together with Angola's poor international financial reputation, presents sizable challenges for U.S. suppliers of goods and services.

All imports are subject to licensing. In October 1995, the government announced that import licenses would no longer routinely be granted after the fact. All imported merchandise worth $5,000 or more—whether paid for in foreign currency or not—must now be inspected by Societe Generale de Surveillance (SGS) before the goods can be offloaded in Angola. Import licenses are granted only to registered enterprises of proven technical, commercial, and financial capacity, are issued on the basis of a foreign exchange allocation and are restricted to imports of goods for which the enterprise is registered. To obtain a license, enterprises must present offers of three foreign suppliers to the sectoral ministries and to the Ministry of Commerce. The approved offer may be considered for an import license application which, in turn, must be approved by the same ministries. Export of certain goods are prohibited and special export regimes apply to several others. Re-exports of goods other than capital goods and personal belongings are also prohibited. Restrictions apply to the exportation of products that are in short domestic supply. All other exports are subject to prior licensing.

State-owned firms in some service industries have in the recent past attempted to keep out foreign competition, sometimes with success. 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. However, under the Foreign Investment Law of September 1994, foreign investment is still prohibited or limited in defense, law and order, banking, public telecommunications, energy, media, education, health, and transport. Direct investments in the oil sector are encouraged. All capital transfers are subject to licensing and control. Dividends and capital may be repatriated upon liquidation with the prior approval of the Ministry of Finance.

Angola is "off cover" for trade finance from the Export-Import Bank of the U.S. (Ex-Im) because of the country's outstanding arrears of about $16 million and the elevated business risk in Angola. However, specific projects in the oil sector in Cabinda will be considered on a project-by-project basis by Ex-Im for support. 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 made $12 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 1995.

The U.S. government continues to prohibit the transfer of U.S.-origin lethal material to all entities in Angola, and to prohibit by executive order the transfer of all defense articles and petroleum products to UNITA. The U.S. has lifted the restriction on the private transfer of U.S.-origin non-lethal defense articles to the Government of Angola, with a presumption of approval of applications for export licenses for such transfers.

6. Export Subsidies Policies

No export subsidy schemes currently exist.

7. Protection of U.S. Intellectual Property

Legislation passed in 1992 provides for patents, trademarks, and copyrights, but the government does not have the resources to enforce these laws. The small-scale sale of counterfeited and pirated consumer goods does not significantly impact on U.S. trade. The Republic of Angola joined the World Intellectual Property Organization in 1985.

8. Worker Rights

a. *The Right of Association.*—The constitution provides for the right to form and join trade unions, but the government does not respect this right in practice. The law requires labor unions to be recognized by the government. Government dominates the labor movement through the National Union of Angolan Workers (UNTA), the labor organ of the ruling MPLA. Restrictions on civil liberties effectively restrict labor activity against the will of the government.

b. *The Right to Organize and Bargain Collectively.*—The constitution provides workers the right to organize and to strike, and the law provides for collective bargaining, but the government does not respect these rights in practice. Despite stated commitments to decentralization and privatization the government continues to dominate the economy through state-run enterprises. The Ministry of Public Administration, Employment and Social Security sets wages and benefits. Salaries for public servants are set at the Minister's discretion. Salaries of parastatal employees are based on profits of the previous year and loans available from the central bank. The

law prohibits lockouts and worker occupation of places of employment and provides protection for nonstriking workers. It prohibits strikes by military and police personnel, prison workers, and firemen. The law does not effectively prohibit retribution against strikers.

c. *Prohibition of Forced or Compulsory Labor.*—Current law authorizing forced labor for breaches of worker discipline and participation in strikes has been cited by the ILO as a violation of Convention 105. The government indicated in 1993 that it planned to introduce legislation that would prohibit forced labor, but it had not done so by November 1995.

d. *Minimum Age for Employment of Children.*—The legal minimum age for employment is 14. However, many younger children work on family farms, as domestic servants and in the informal economy. Thousands more young children have been conscripted into the Angolan Armed Forces and UNITA's guerrilla army.

e. *Acceptable Conditions of Work.*—The minimum wage is equivalent to less than $1.00 per month and the average salary is the equivalent of approximately $6.00 per month. As a result, many wage-earners depend on the thriving informal sector, subsistence farming, theft, corruption, or support from relatives abroad in order to survive. A 1994 government decree established a 37-hour workweek. However, inadequate resources prevented the government from enforcing this standard and other occupational health and safety standards. Workers cannot remove themselves from dangerous work situations without jeopardy to continued employment.

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 have the same limitations on the rights of association, organization, and collective bargaining as workers in other sectors of the economy. The petroleum industry does not employ under-age children.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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		(1)
Services		(2)
Other Industries		0
TOTAL ALL INDUSTRIES		576

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

GABON

Key Economic Indicators

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

	1993	1994	[1] 1995
Income, Production and Employment:			
Real GDP (1989 prices)[2]	4,315.6	4,185.1	4,187.0

Key Economic Indicators—Continued

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

	1993	1994	[1] 1995
Real GDP growth (percent)	2.5	−0.5	−0.02
GDP (at current prices)[2]	4,824.0	3,654.0	3,655.8
GDP by Sector:			
Agriculture	450.5	326.6	330.0
Industry	2,443.1	2,150.7	2,153.0
Oil	1,626.1	1,558.4	1,555.0
Non-oil	629.3	456.2	490.0
Construction	187.6	136.0	138.0
Services	2,571.3	1,484.9	1,485.0
Real per capita GDP ('85 BPS)	4,272.0	4,127.0	4,187.0
Labor Force (000s)	89.5	91.0	90.0
Unemployment Rate (percent)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	−4.7	36.0	23.0
Base Interest Rate[3]	11.5	12.0	8.5
Personal Saving Rate	22.0	N/A	N/A
Retail Inflation	1.3	48.2	20.0
Wholesale Inflation	4.0	35.0	15.0
Consumer Price Index (1975=100)	286.7	400.8	410.0
Exchange Rate (CFA/US$):			
Official	283.0	530.0	500.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[4]	2,113.7	2,367.2	2,500.0
Exports to U.S.	1,148.2	1,150.2	1,140.0
Total Imports CIF[4]	835.2	700.5	730.0
Imports from U.S.	48.2	85.0	95.0
Aid from U.S. (US$ thousands)	168.0	390.0	300.0
Aid from Other Countries (US$ millions)	53.0	81.0	N/A
External Public Debt	3,358.4	3,574.0	5,000.0
Debt Service Payments (paid)	119.0	463.7	550.0
Gold and Foreign Exchange Reserves	5.0	63.3	N/A
Trade Balance[4]	1,278.5	1,666.7	1,770.0
Balance with U.S.	1,100.2	1,065.2	1,045.0

[1] 1995 Figures are all estimates based on available monthly data in October 1995.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise Trade.

1. General Policy Framework

The Gabonese economy is dominated by petroleum and mining production, which together contribute over 40 percent of gross domestic product (GDP); oil is the key variable (production is estimated at 360,000 barrels per day), 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. The Gabonese Government has been facing fiscal crisis since 1986 because of decreased oil prices and relatively poor financial management. Large deficits have led Gabon to turn to foreign creditors for financing.

Following the devaluation in 1994 of the CFA franc, a World Bank/IMF debt rescheduling program was adopted. 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. Gabon's performance during its one year standby arrangement was judged to be good. Since then financial difficulties and the accumulation of arrears worsened its credit standing with the IMF and the World Bank, blocking conclusion of agreement on a three-year extended fund facility. Gabon's failure to account properly for oil revenue and the inadequacy of new laws relating to the privatization of key parastatal enterprises continue to be major areas of concern.

2. Exchange Rate Policies

As a member of the CFA Franc Zone, Gabon has little flexibility in monetary and exchange policies. The value of the CFA franc is currently set at 100 CFA per French franc. While this mechanism assures exporters and importers of the convertibility of the currency, it ensures a fixed exchange rate vis-a-vis the French franc only. Thus, it 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 Central Bank before commercial banks 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

All products can be freely imported except sugar, an exception designed to protect the Gabonese producer. Customs taxes apply to four categories of goods:

Category 1: basic products—this list includes medicines, vaccines, and other medical supplies, as well as rice and wheat. The tariff for Category 1 is 5 percent of CIF (cost insurance and freight) prices.

Category 2: raw materials—this category covers inputs for the industrial sector. They are subject to a tariff of 10 percent of CIF prices.

Category 3: intermediate products—this category includes most food products imported into Gabon. The tariff rate is 20 percent of CIF prices.

Category 4: consumer goods are subject to a tariff rate of 30 percent of CIF prices.

Export taxes were abolished in 1994. The Government has been attempting to institute a charge for shipping on non-national vessels. An 18 percent value added tax was put into effect in April 1995 for all companies with annual turnover exceeding $400,000. Exempt from the VAT are newspapers, eggs, milk, fresh fish, cooking oil, sugar, rice and bread.

An import license is required for all imports exceeding 500,000 CFA francs (approximately $1,000) in value. Export licenses are also required. All goods entering Gabon must have a bill of lading. Some goods enter Gabon duty free on a temporary basis, such as equipment used in the crude oil sector (seismic vessels, drilling equipment, etc.).

Importation of sugar is banned. In 1993, the Ministry of Interior issued a decree banning the private import of all firearms and munitions.

The Gabonese Government levies a personal income tax, a corporate income tax, a value-added tax and customs duties on imports. The Government draws much of its revenue 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 evaded widely. Customs duties have recently been lowered, but collection is inefficient. In the past, some observers estimated the annual loss in revenue due to fraud and smuggling to be as high as $100 million. High inflation rates prompted the Government to impose price controls on certain staples at the retail level in 1995.

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 $1.0 billion in 1985 to $3.5 billion in 1994 and is expected to reach $5.0 billion in 1995, 119 percent of projected real GDP. Gabon rescheduled its private debt with the London Club in 1987 and again in 1994. It has been to the Paris Club seven times, most recently in December 1995. Since April 1995, Gabon has been negotiating with the IMF and in November 1995 received a three-year arrangement at near commercial rates under the extended fund facility, for a program to reform the economy, develop the

private sector and privatize state-owned companies. Gabon still has a large overhang of external and domestic payment arrears.

Monetary policy is tight, exercised through adjustments in the bank discount rate of the Regional Central Bank (BEAC), by ceilings on net lending, and by 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.

The Government's history with the Paris and London Clubs is mediocre considering the fact that Gabon has the highest per capita income in Sub-Saharan Africa. Sched..led payments of 30 billion CFA francs ($60 million) due to the Paris Club governments by October 1995 have not been fully met.

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.

5. Significant Barriers to U.S. Exports

Decrees pursuant to the IMF standby in 1994 lifted prohibitions against importing mineral water, household soap, cooking oil, and cement. 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. Factors such as language, distance, culture, and historical ties to France remain as practical barriers to U.S. trade.

Most U.S. products sold in Gabon are marketed through Gabonese agents. Agents often operate branches of major multinational firms, reporting to regional affiliates headquartered in Europe. Examples are Tractafric (selling Caterpillar heavy equipment), Motorola (represented by CFAO), and General Electric (represented by SOGAFRIC). Other U.S. products are sold by small local firms with a single outlet in Libreville.

Recognizing the need to attract foreign skills and technology to assist in the economic development of the country, the Gabonese Government has never imposed intrusive or discriminatory measures on the investments of foreign firms, which are the mainstay of the petroleum industry. On April 15, 1994, Gabon signed the Multilateral Investment Guarantee Agency (MIGA) Convention; MIGA is operated by the World Bank.

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.

6. Export Subsidies Policies

Gabon's exports are almost exclusively of raw materials, not benefiting from subsidies.

7. Protection of U.S. Intellectual Property

The Gabonese Government is not active in the WTO or in other international trade fora and has not taken a comprehensive position on the intellectual property aspects of the Uruguay Round. Largely for lack of enforcement capability, the Government turns a blind eye to the infrequent 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 have been processed in Nigeria enroute to Gabon.

8. Worker Rights

a. *The Right of Association.*—Since reforms in 1990 ending the single party political system, the Gabonese Labor 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 1995 forbids forced labor; despite this, credible sources report cases of prisoners, most often African expatriates, being forced to provide unpaid labor.

d. *Minimum Age for Employment of Children.*—The Labor Code of 1978 sets a minimum age of sixteen years for employment. UNICEF and other concerned organizations have reported instances of the 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 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. 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 and working conditions in U.S. firms are in general better than those elsewhere in the economy, with more careful adherence to safety standards.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		73
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		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		82

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

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

GHANA

Key Economic Indicators

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

	1993	1994	[1] 1995
Income, Production and Employment:			
Real GDP(1985 prices)[2]	716	523	500
Real GDP Growth (percent)[3]	5.0	3.8	5.0
GDP (at current prices)[2]	5,650	5,243	5,000

Key Economic Indicators—Continued

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

	1993	1994	[1] 1995
GDP by Sector:			
Agriculture	2,373	2,116	1,975
Energy and Water	102	100	97
Manufacturing	514	472	458
Construction	181	173	166
Rents	N/A	N/A	N/A
Financial Services	215	199	187
Other Services	1,802	1,694	1,604
Government, Health, Education	N/A	N/A	N/A
Net Exports of Goods and Services	−1,076	−737	−695
Real Per Capita GDP (1985 BPS)	48	34	31
Labor Force (1,000)	5,800	5,900	6,000
Unemployment Rate	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	32	46	30
Base Interest Rate (percent)[4]	35	30	41
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation (percent)	27.7	34.2	66.9
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (1977=100)	23,279	29,069	46,500
Exchange Rate (cedi/US$):			
Official	822	1,050	1,400
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[5]	1,064	1,227	1,350
Exports to U.S.	209	198	200
Total Imports CIF[5]	1,888	1,724	1,700
Imports From U.S.	215	124	150
Aid from U.S.	63	50	45
Aid from Other Countries	384	375	375
External Public Debt	4,603.3	5,001.1	5,200
Debt Service Payments (paid)	332.0	336.0	N/A
Gold and Foreign Exchange Reserves	420.4	592.9	N/A
Trade Balance[5]	−824	−497	−350
Balance With U.S.[5]	−6	74	50

[1] 1995 Figures are all estimates based on available monthly data in October 1995.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.

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 took office in January 1993. Opposition parties boycotted the parliamentary elections because of a belief that the presidential election was fraudulent. An independent Judiciary acts as the final arbiter of Ghanaian laws.

The government has generally adhered to the reform measures of a Structural Adjustment Program (SAP) adopted in 1983 by the previous military government. Ghana is a member of the WTO. In 1992, fiscal discipline was relaxed during the run up to the presidential and parliamentary elections. A large public sector wage increase resulted in a fiscal deficit and contributed to a worsening of inflation. Undisciplined spending by parastatals has also contributed to excessive monetary growth and intensified inflationary pressures. The Bank of Ghana has been compelled to pursue a high interest rate policy in an attempt to absorb excess liquidity and contain inflation. Nonetheless, the inflation rate trended higher throughout 1995 and in September registered approximately 70 percent.

The government's economic program has focused on the development of Ghana's private sector, which historically has been weak. Although the government says it intends to privatize a significant number of state-owned enterprises, progress to date has been slow.

Other reforms adopted under the SAP include the elimination of exchange rate controls and the lifting of virtually all restrictions on imports. The establishment of an interbank foreign exchange market has greatly expanded access to foreign exchange. The elimination of virtually all local production subsidies is further indication of the government's intention to move toward a market oriented economy.

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. In June 1995 Ghana completed negotiations with the IMF on a new $245 million ESAF arrangement. Future disbursements of assistance will depend on Ghana'a making additional progress in the privatization program and on achieving macroeconomic performance targets.

2. Exchange Rate Policies

The foreign exchange value of the Ghanaian cedi is established through the mechanism of an interbank market and foreign exchange is easily obtained. The foreign exchange auction procedure was abandoned in 1992. As the demand for imports has risen steadily, the government has allowed the cedi to depreciate. The cedi has declined from 822 to 1 US dollar at the end of 1993 to approximately 1,400 to 1 US dollar in November 1995. In general, the exchange rate regime in Ghana does not have any particular impact on the competitiveness of U.S. exports.

3. Structural Policies

Ghana progressively wound down import quotas and surcharges as part of its Structural Adjustment Program. Tariff structures are being adjusted in harmony with the ECOWAS trade liberalization program. 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. Imported goods currently enjoy generally unfettered access to the Ghanaian market.

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

The government repealed a 17.5 percent Value Added Tax shortly after its introduction in March 1995. The tax resulted in widespread public protests and some street violence. The government has reverted to several previously-imposed taxes, including a sales tax, but it is not certain that it will now be able to achieve 1995 revenue targets.

4. Debt Management Policies

Persistent balance of payments deficits have resulted in a continuing increase in foreign indebtedness. Swings in commodity prices, especially gold and cocoa, have a dramatic impact on Ghana's export revenues. In 1994, gold accounted for 45 percent of total export revenues while cocoa accounted for 26 percent and timber for 13 percent. On the import side capital goods are the largest category, followed by intermediate goods, fuel and consumer goods.

Ghana's total external debt outstanding, including obligations to the IMF, currently totals approximately $5.1 billion. This figure grew by 7 percent during 1994. Outstanding obligations to the IMF under medium-term facilities stood at $745 million at the end of the first quarter of 1995. At that time long-term debt outstanding was about $3.6 billion (about 71 percent of total debt) of which $931 million and $2.6 billion were owed to bilateral and multilateral institutions respectively. Ghana cleared all external debt arrears in 1994. In June 1995 Ghana negotiated a new $245 million ESAF arrangement with the IMF.

Ghana's external debt as a percentage of GDP has risen from 60.7 percent in 1992 to 76.8 percent in 1993 and to 90.3 percent in 1994. The debt service ratios were 25.1, 35.7 and 27.4 for 1992, 1993 and 1994 respectively.

5. Significant Barriers to U.S. Exports

Import Licenses: Ghana eliminated its import licensing system in 1989. Ghana retains a ban on the importation of a narrow range of products that do not affect U.S. exports.

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

Standards, Testing, 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 in English identifying the type of product being imported, the country of origin, the ingredients or components, and the expiration date, if any. Non-complying goods are subject to government seizure. The thrust of this law is to regulate imported food and drugs; however, by its terms the law applies to non-consumable imports as well. Locally manufactured goods are subject to comparable testing, labeling, and certification requirements.

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

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

6. Export Subsidies Policies

The Government of Ghana does not directly subsidize exports. Exporters are entitled to a 100 percent drawback of duty paid on imported inputs used in the processing of exported goods. Bonded warehouses have been established which allow importers to avoid duties on imported inputs used to produce merchandise for export.

7. Protection of U.S. Intellectual Property

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

Patents: 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.

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 would be apparent to all but the most unsuspecting buyer.

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

8. Worker Rights

a. *The Right of Association.*—Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is rep-

resented 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 regime. Civil servants have their own union, the Civil Servants Association, which operates outside of the TUC umbrella. Government employees of several different departments and agencies went out on strike in 1995 without government retribution. No union leaders have been detained in recent years, nor has the right of workers to freely associate otherwise been circumscribed.

b. *The Right to Organize and Bargain Collectively.*—The IRA provides a framework for collective bargaining and protection against anti-union discrimination. Trade unions engage in collective bargaining for wages and benefits with both private and state-owned enterprises without government interference. The government, labor and employers negotiate together, however, through a tripartite commission. The law requires employers found guilty of antiunion discrimination to reinstate worker fired for union activities. The IRA provides a mechanism for conciliation and arbitration before unions can resort to job actions or strikes.

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

d. *Minimum Age for Employment of Children.*—Labor legislation in Ghana sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. The violation of child labor laws is common and young children of school age can often be found during the day performing menial tasks in the agricultural sector or in the markets. Observance of minimum age laws is eroded by local custom and economic circumstances that encourage people to become wage earners at an early age. Inspectors from the Ministry of Employment 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.*—In 1991 a Tripartite Commission composed of representatives from government, organized labor, and employers established minimum standards for wages and working conditions. The daily minimum wage combines wages with customary benefits such as a transportation allowance. The current daily minimum wage is 1,200 CEDIS (approximately $1.00). This sum does not permit a single wage earner to support a family and frequently results in multiple wage earners and other family-based commercial activity. By law the maximum workweek is 45 hours, but collective bargaining has established a 40 hour week for most unionized workers.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Services	0
Other Industries	(1)
TOTAL ALL INDUSTRIES	143

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1982 prices)[2]	1,498	1,595	1,678
Real GDP Growth (percent)[3]	0.1	3.0	5.0
GDP (at current prices)[2]	4,658	5,744	6,043
GDP by Sector:			
Agriculture	1,219	1,580	1,660
Energy and Water	40	60	64
Manufacturing	626	617	666
Construction	142	270	280
Rents	N/A	N/A	N/A
Financial Services	401	733	780
Other Services	506	1,083	1,137
2Govt, Health and Education	460	935	972
Net Exports of Goods and Services	−131	−94	−150
Real Per Capita GDP ('82 BPS)	55	63	85
Labor Force (000s)	11,800	12,300	13,160
Unemployment Rate (percent)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	26.0	31.0	35
Base Interest Rate[4]	27.0	19.0	21
Personal Saving Rate	20.0	15.0	12
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	46.0	28.8	6.2
Exchange Rate (KSh/USD—Annual Average)	65.0	55.0	56.0
Balance of Payments and Trade:			
Total Exports FOB[5]	1,186	1,482	1,769
Exports to U.S.	53	109	120
Total Imports CIF[5]	1,493	2,043	2,699
Imports from U.S.	104	170	175
Aid from U.S.[6]	32	36	35
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	6,300	6,700	6,900
Debt Service Payments (paid)	436	450	480
Gold & Foreign Exch. Reserves	150	506	550
Trade Balance[5]	−575	−620	−500
Balance with U.S.[5]	−51	−117	−60

[1] 1995 figures are all estimates based on January-October data.
[2] GDP at factor cost.
[3] Percentage changes calculated in Kenya shillings.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.
[6] Emergency food aid is not included.

1. General Policy Framework

Kenya's economy is basically agricultural, with a small industrial base. Agriculture contributes 26 percent to Gross Domestic Product (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, though declining, absorbs over 40 percent of all formal sector wage employees and 35 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. Kenya is a member of the World Trade Organization. Non-traditional areas which have the most potential to augment incomes and employment include horticulture, manufactured exports and small-scale enterprises.

Under a structural adjustment program (SAP) supported by the World Bank and the International Monetary Fund (IMF) in 1993–95, the government made substantial progress in removing impediments to the development of a free market. Price controls were abolished, import licensing requirements removed and the Kenya shilling floated. The outcome has been a significant opening of the domestic market to international competition. As a result of these economic reforms, the economy is on the road to recovery after several years of near zero growth. GDP is expected to increase by five percent in 1995, up from three percent in 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 70 percent. By June 1995, weekly sales had fallen to $90 million and rates to the mid-teens. The commercial bank cash ratio was raised steadily from 12 percent 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. Amendments to the country's banking bill signed into law in early November 1995 provide the CBK governor with additional powers to regulate the financial services sector.

The government's efforts to combat inflation have been particularly successful. From a high of 100 percent in July 1993, the government brought the month-to-month rate of inflation down to 3.3 percent in October 1995. For all of 1995, the average rate is estimated to be 6.2 percent. While deficit spending by the government continues to create inflationary growth in the money supply, tight monetary policy and an increased flow of cheap imports as well as good harvests beginning in 1994 have kept prices in line.

Meanwhile, the budget deficit as a percentage of GDP is falling. According to official figures, the government reduced the deficit from 6.5 percent of GDP in FY 1993/1994 to 0.7 percent in FY 1994/1995. This has been despite a reduction in donor assistance flows as compared to historic levels. The government's goal is to reduce the deficit in FY 1995/1996 to zero. The Central Bank constitutes the source for most deficit financing. Civil service salaries, representing nearly 70 percent of recurrent government expenditures, and money-losing parastatals such as the National Cereals Board, have contributed in large part to deficit spending. Since July 1993, nearly ten percent of the entire civil service has been retrenched, but the effort is slowing. Likewise, although the government since 1991 has sold its interest in nearly 100 of the 207 parastatals designated as non-strategic, the most economically important enterprises, such as the national railroad, the port authority and the post and telecommunication company, remain in government hands.

2. Exchange Rate Policies

From 1981–1993 the Kenya shilling was pegged to the IMF's special drawing right (the Fund's unit of account). In October 1993, the government stopped fixing the rate paving the way for a market-determined exchange rate. With the exception of occasional open market operations to prevent overly rapid downward movement, the Central Bank has since allowed the shilling to float. Foreign exchange reserves improved substantially in late 1993 and much of 1994 to well over four months' import cover because of a freer foreign exchange regime and large capital inflows due to the attractive interest rates on Treasury bills. The reserve level declined, however, in 1995. This was mainly due to the CBK's decision to use part of its reserves to pay outstanding external debt at a time when import demand was high and donor aid flows curtailed.

Although the restrictive Exchange Control Act is still on the books (a government bill to repeal the act is expected to pass before Parliament recesses in early Decem-

ber 1995), most of the restrictions on the holding and transfer of foreign exchange have been abolished. By ministerial decree, local exporters may now use hard currency earnings directly to meet import requirements and remit dividends. Borrowing restrictions on foreign and local firms from both domestic and offshore sources have been eliminated. Expatriates are permitted to operate foreign currency accounts in Kenyan banks. The government licensed the country's first foreign exchange bureaus in early 1995 and announced a plan to make the Kenya, Uganda and Tanzania shilling mutually convertible by January 1, 1996. Foreign investors may repatriate earnings on new investments without CBK approval. Repatriation of profits on pre-March 1994 investments are still subject to approval as are overseas transfers by Kenyans of domestic funds in excess of $5,000.

3. Structural Policies

In November 1994, the last price controls, those on petroleum products, were abolished. A government subsidy on the price of corn and two short-lived import bans on selected agricultural commodities distorted prices in the second half of 1994 and the first half of 1995. Although the bans did not include hard wheat, traditionally a large U.S. export item, an anti-subsidy measure adopted in September 1994 did discourage subsidized American wheat imports.

Kenya continued its tax modernization program in 1994 and 1995. Reforms included the introduction in 1994 of personal identification numbers for tax-related transactions and the establishment in July 1995 of a central revenue authority to enhance collection capabilities. Over the past two years, the government has steadily increased the range of goods and services subject to the value-added tax (VAT). VAT accounted for over 50 percent of domestic revenue in 1994. Effective January 1995, the government lowered the maximum personal income tax rate from 40 percent to 35 percent. In 1994, it reduced the corporate tax from 37.5 percent to 32.5 percent. In June 1994, Kenya reduced the number of custom duty categories from eight to seven. In June 1995, the number of categories was reduced to six. The maximum tariff fell in 1994 from 50 percent to 45 percent; and in 1995, the government lowered the maximum rate to 40 percent.

Abolition of import licensing requirements, increased availability of foreign exchange, and the reduced role of marketing monopolies held by a number of parastatals have improved the commercial environment. Producers no longer require large inventories of raw materials. Firms can program production and forecast sales more accurately. Shortages of inputs and basic consumer items have become rare. These measures have, in turn, helped to improve the country's general investment climate. For the first time in more than four years, the country's investment level increased in 1994—by 13.4 percent. Remaining impediments to investment include inadequate government investment in infrastructure, particularly roads, power and water, and widespread corruption. A growing population also strains the government's ability to provide adequate social infrastructure particularly in public health and education.

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 in January 1994. A multilateral agreement was concluded under non-concessional terms which rescheduled arrears accumulated from December 1991–1993. Repayment was scheduled over seven years, starting with a grace year in 1994 and ballooning to 25 percent in later years. Kenya did not seek a London Club rescheduling. Private arrears accumulated during the 1991–93 period (approximately $70 million) were sufficiently small that they could be repaid directly.

Kenya's stock of international debt was $6.7 billion in 1994. As a result of the rescheduling, the government is required to pay $188 million in interest and to redeem $341 million in outstanding debt in 1995. Annual debt payments are expected to remain in the $500–550 million range. This represents roughly four months of exports and approximately 32 percent of GDP. The debt problem is compounded by a huge domestic debt, much of which consists of Treasury bills sold by the government at high interest rates since 1993 to reduce the money supply.

Although adjustment programs are ongoing with the IMF and World Bank, the last policy framework paper (PFP) was agreed in 1993. Finalization of a new PFP and a new $200 million IMF enhanced structural adjustment facility has been held up pending more government action on corruption. The proposed World Bank $50 million structural adjustment credit is under discussion. The next consultative group meeting of all donors under the aegis of the World Bank in Paris has been tentatively scheduled for January or February 1996.

5. Significant Barriers to U.S. Exports

Foreign companies offering services in construction, engineering and architecture may face discrimination when bidding for public projects. Life insurance companies are required to have at least 33 percent local ownership and general insurers must reinsure 25 percent of their business with the state reinsurance company. All foreign films must be licensed by the national film company. Foreign lawyers wishing to practice in Kenya are required to take a one-year course at the Kenya School of Law. Telecommunications is still largely controlled by the state monopoly. Commercial power generation and distribution is also a monopoly of the national power and lighting company and two other parastatals. In late 1995, however, the government solicited bids for a build-own-operate program of private power generation.

Importation of animals, plants, and seeds is subject to quarantine regulations. Special labelling is required for condensed milk, paints, varnishes, and vegetable/butter ghee. Kenyan law requires that all imports must be sold by metric weight or metric fluid measure.

Aside from the insurance sector and various parastatal monopolies, there are no statutory sectoral limits on direct foreign investment. In practice, however, the government strongly encourages joint ventures through the approvals process for local and foreign investment. It is the stated policy of the Investment Promotion Center to promote investment outside the two cities of Nairobi and Mombasa. New foreign investors with expatriate staff are required to submit plans to phase them out. Local authorities are also reluctant to grant licenses for small-scale commercial enterprises absent a Kenyan partner. Kenyan law does not permit manufacturers to distribute their own products. Foreign equity investment on the Nairobi stock exchange has been authorized since January 1, 1995. The limits were increased in mid-June 1995 to 40 percent combined foreign ownership and 5 percent individual foreign ownership.

As a former British colony, U.K. firms dominate in the procurement of government imports. Sales of major import items are frequently tied to the source country providing official development finance. Government procurement is done through tender boards. Goods worth over $4,000 must be purchased through open tender. Kenyan firms are entitled to a 10 percent preference (i.e., if the Kenyan bid is up to 10 percent higher than a foreign bid, the Kenyan company will be awarded the contract). Practice often differs from government regulations. The incidence of corruption is high. Tenders have frequently been awarded to uncompetitive firms in which government officials have a significant interest. There are no conflict-of-interest regulations. Some of the largest government contracts are awarded in secrecy. The government's decision in 1994 to grant a $83 million contract for a new international airport at Eldoret without open bidding is the most recent example.

Customs procedures are overly detailed and rigidly implemented with resulting delays in clearing both imports and exports. Commodities imported into Kenya valued in excess of $500 are subject to preshipment inspection, including price comparison, by a government-appointed inspection firm for a 2 percent fee. Goods arriving in Mombasa without preinspection are subject to inspection at the port, for a fee of 5 percent. Kenyan importers must use local insurance companies to insure imports. 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.

6. Export Subsidies Policies

In September 1992, the Kenyan government enacted a duty/VAT remission facility which allows exporters to purchase imported inputs duty-free. This facility is designed to be less subject to corruption than the prior export compensation scheme. There is no general system of preferential financing, but sectoral government development agencies in areas such as tourism and tea are supposed to provide cheap funds to promote investment and exports by Kenyans.

The government has two major export institutions: the Export Processing Zones Authority, which promotes investment through liberal tax incentives, and the Export Promotion Council, a public-private body which coordinates export promotion activities. There are two private export processing zones (EPZs) in Nairobi, one of which is open to investors, and one in Mombasa. They cater to over fifteen companies. A government-sponsored EPZ near Nairobi has recently commenced operations. The government is currently looking for funds to construct another in Mombasa. The donor community also provides technical assistance to promote non-traditional exports.

7. Protection of U.S. Intellectual Property

Kenyan laws on intellectual property are less than adequate and enforcement of existing legislation is poor, resulting in widespread piracy. The country is party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Universal Copyright Convention and the Berne Convention. Kenya is also a member of the World Intellectual Property Organization and the African Regional Industrial Property Organization. Protection of patents and trademarks is the responsibility of the Kenya Industrial Property Office (KIPO). Copyrights are handled by the Attorney General's office.

The Industrial Property Act of 1990 established KIPO and put it in charge of granting patents and industrial property rights. KIPO also screens technology transfer agreements and licenses. Patents are valid for seven years from the date of filing and may be extended for 10 years. A law to extend the period of validity to conform to the international period is expected to be introduced in early 1996.

Trademark protection is available from the Kenyan government for a period of seven years. Upon application, the proprietor of the trademark may renew the registration for a period of 14 years when the original registration or the last renewal expires. The first applicant for trademark protection is entitled to registration.

Piracy of books, music tapes, videos and computer software is widespread. In November 1995, Parliament passed a bill to amend the Copyright Act; it is with the President for signature. The main objectives of the bill are to bring Kenyan law into conformity with the Berne Convention and to incorporate changes necessitated by technological change, notably in the field of computers. The amendment specifically defines computer programs to be within the Act. Pirated sound recordings are largely imported.

Inadequate intellectual property protection has discouraged U.S. investment and trade in Kenya. This is particularly the case with videos, which enjoy virtually no legal protection, but it is also true of industrial technology. The delays required to obtain official sanction and a lack of confidence in speedy and fair resolution of commercial disputes are major stumbling blocks.

8. Worker Rights

a. *The Right of Association.*—All workers are free to join unions of their own choosing except for civil servants in the national government, including doctors, and university academic staff. Approximately 350,000 workers or 20 percent of Kenya's industrialized work force are union members. Except for the 150,000-strong Kenya National Union of Teachers and four other small unions, all other unions belong to the Central Organization of Trade Unions (COTU). Internationally, COTU is affiliated with the continent-wide Organization of African Trade Union Unity and the International Confederation of Free Trade Unions. 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. The military, police, prison guards and members of the National Youth Service are precluded by law from striking.

b. *The Right to Organize and Bargain Collectively.*—While not having the force of law, 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. Both the Trade Disputes Act and the Charter authorize collective bargaining between unions and employers. Wages and conditions of employment are established in the context of negotiations between unions and management. In 1994, government wage policy guidelines which limited salary increases were relaxed as were employers' ability to declare workers redundant. Collective bargaining agreements must be registered with the Industrial Court.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution proscribes slavery, servitude, and forced labor. Under the Chiefs' Authority Act, however, a local authority can require people to perform community service in an emergency, but there were no known instances of this practice in 1994 or 1995. 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 to contravene ILO Conventions 29 and 105 concerning forced labor.

d. *Minimum Age for Employment of Children.*—The Employment Act of 1976 proscribes the employment of children under 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 the children serving as apprentices under the terms of the Industrial Training Act. Ministry of Labor officers are authorized to enforce the minimum age statute. Given the high levels of adult unemployment and

underemployment, the employment of children in the formal wage sector in violation of the Employment Act is not a significant problem.

e. *Acceptable Conditions of Work.*—In 1995, minimum unskilled worker salaries averaged less than $30 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. "Whistleblowers" are not protected, however. Kenya's worker compensation regulations do not yet comply with provisions of ILO Convention No. 17.

f. *Rights in Sectors With U.S. Investment.*—There is significant U.S. investment in petroleum (Caltex, Esso), food (Coca Cola, CPC), transportation equipment (GM, Firestone) and other manufacturing sectors (Kiwi Brands, computer assembly). Labor conditions are similar to those in other sectors of the economy. If there is any notable difference, it is that working conditions in the U.S. firms are better than the average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		40
Total Manufacturing		27
Food & Kindred Products	3	
Chemicals and Allied Products	6	
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		131

[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]

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1984 prices) [2]	4,542	4,600	N/A
Real GDP Growth (percent) [3]	2.3	1.3	2.6
GDP (at current prices)	37,023	40,795	N/A
GDP by Sector:			
Agriculture	1,730	1,397	N/A
Energy and Water	558	550.5	N/A
Manufacturing	688	313.6	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995
Construction	127	91.8	N/A
Rents	N/A	122.7	N/A
Financial Services	396	410	N/A
Other Services	772	39.1	N/A
Government, Health, Education	470	500.5	N/A
Net Exports of Goods and Services	832.8	666.6	N/A
Real Per Capita GDP (US$)[3]	48.84	48.0	N/A
Labor Force (millions)	42.8	42.8	42.8
Unemployment Rate (percent)[4]	3.4	3.9	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	5,290.5	7,818.4	N/A
Base Interest Rate[5]	27	21	35
Personal Saving Rate	15.5 12–15	15	
Retail Inflation	57.2	57	60
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	751.9	1,180.7	N/A
Exchange Rate (US$/naira—annual average):[6]			
Official	0.04	0.05	0.05
Parallel	0.02	0.02	0.01
Balance of Payments and Trade:			
Total Exports FOB[7]	9,923	9,377	N/A
Exports to U.S.	3,301	4,430	N/A
Total Imports CIF[7]	5,665	7,319	N/A
Imports from U.S.	891	509.2	N/A
Aid from U.S.	23	13.5	12
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	28,700	29,440	N/A
Debt Service Payments (paid)	1,600	1,800	2,000
Gold and Foreign Exchange Reserves	806	1,659	N/A
Trade Balance[7]	3,258	2,057	N/A
Balance with U.S.[7]	4,410	3,440	N/A

[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] 1995 figures are estimated based on January-June 1995 data.
[3] In constant 1984 naira, GDP grew 2.3 and 1.3 percent in 1993 and 1994, while GDP per capita in current dollars was $398 and $300.
[4] CBN figure; Embassy estimates 28 percent employment.
[5] Figures are actual average annual interest rates, not changes in rates.
[6] Official exchange rate for government transactions is 22 naira/dollar while the government-authorized Autonomous Foreign Exchange Market rate in the first half of 1995 averaged 80 naira/dollar.
[7] 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 largest domestic market in Sub-Saharan Africa. However, it also suffers from an autocratic military government, inadequate infrastructure, confusing and inconsistent regulations, and endemic corruption. Nigeria's crucial petroleum sector provides the government with over 90 percent of all foreign exchange earnings and about 80 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. Nigeria is a member of GATT and acceded to the WTO on January 1, 1995.

After a period of relative fiscal austerity in the late 1980's, the Nigerian government ran budget deficits of up to 12 percent of GDP beginning in 1990. The deficit decreased to seven percent in 1994 and in 1995 the budget deficit is expected to decline to two to five percent of GDP. The deficit reduction came about primarily through austerity, e.g. foregoing government projects and infrastructure maintenance. International financial institutions' recommendations to further reduce the

deficit include reducing large government fuel price subsidies (the official price of gasoline was equivalent to about 55 cents per gallon in November 1995), 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 75 percent of the government's domestic debt at the end of 1994. 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.

Over the past two years, Nigeria has flip-flopped on economic policy. In conjunction with his 1994 budget announcement, Head of State General Sani Abacha announced the abandonment of most 1986 structural adjustment program reforms and instituted tight government control over key economic variables. In response to the economic downturn caused by those measures, in his 1995 budget announcement, Abacha abandoned the tightly regulated economic policies enacted in 1994. Under a new policy of "guided deregulation," the government of Nigeria has reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment, reduced tariffs and lifted bans on some imports.

2. Exchange Rate Policies

In 1995 Nigeria reversed its highly controlled foreign exchange regime instituted in 1994. Under the Foreign Exchange Decree of 1995, the AFEM was reestablished, allowing private companies to source foreign exchange at the parallel market rate of 90 naira to the dollar in November 1995. The official exchange rate of 22 naira to the dollar has been retained for official government transactions. Companies can once again hold domiciliary accounts in private banks, with account holders having "unfettered" use of the funds. Foreign investors may bring capital into the country without prior Finance Ministry approval may service foreign loans, and remit dividends. Foreign exchange dealers are functioning, albeit with a limitation of $2,500 per transaction.

3. Structural Policies

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

In 1995 Nigeria promulgated the Nigerian Investment Promotion Commission (NIPC) Decree to replace the Enterprises Promotion Act. This decree liberalizes the foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector (which is still limited to the existing joint-venture agreement or production-sharing contracts with the Nigerian government). A foreign enterprise may now buy shares of any Nigerian firm except those on the "negative list": production of firearms, ammunition, narcotics, military and paramilitary wares and accouterments. The Investment Promotion Decree provides for the creation of an Investment Promotion Commission which will register companies for foreigners after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits the nationalization or appropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest. The list of reserved sectors (a holdover from the Enterprises Promotion Decree recently repealed) has been one factor that has prevented the conclusion of a bilateral investment treaty between Nigeria and the United States.

Nigeria has also promulgated a money laundering decree to introduce procedures designed to inhibit this practice as well as a decree on Advance-fee Fraud, known as "419 Schemes" after the so-numbered Nigerian law, to track methods of fraud. The scope of 419 business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters since any international transaction must be thoroughly vetted and confirmed.

4. Debt Management Policies

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 middle of 1995 external debt (not including arrears) had reached $32 billion, more than Nigeria's entire gross domestic product. Debt service due including payment of arrearages is projected to be over $8 billion 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 (currently at 40 cents to the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion, but the accumulation of arrears on other debt (especially Paris Club debt) since that time has brought external debt back to previous levels. Including arrears, official foreign obligations exceeded $40 billion as of November 1995.

During the period 1986 to early 1992 on the basis of a comprehensive structural adjustment program Nigeria reached three standby agreements with the IMF. The most recent of these was approved in January 1991 and expired in April 1992. Discussions 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, for 1994 debt service payments were only $1.8 billion and the budgeted debt service payments for 1995 are $2 billion (of which less than half had been made by mid 1995). Although preliminary discussions with the IMF and World Bank have begun on a Medium Term Economic Program, no new rescheduling agreement will be reached until an IMF program is in place again and a successful track record has been established.

5. Significant Barriers to U.S. Exports

Nigeria abolished all export licensing requirements and cut its list of banned imports in 1986. However, as of November 1995, the importation of approximately 20 different items is still banned, principally agricultural items, fertilizer, and textiles. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans are compromised by widespread smuggling, the reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. In addition, due to corruption, little of the heavily-subsidized fertilizer reaches the farmers.

In 1995 Nigeria announced a new tariff structure which will be in force for the next six years. The revision is aimed at narrowing the ranges of many customs duties, increasing rate coverage in line with GATT/WTO provisions and retaining fewer import prohibitions. The following products have been removed from the list of banned commodities and are now subject to duty rates: rice, 100 percent duty; day old chicks and parent stock, 5 percent; sparkling wines and champagne, 100 percent; fruits and fruit juices, 75 percent; and jute bags, 45 percent.

In addition to rice, other U.S. products are hampered by tariffs as follows: sorghum, 100 percent; cigarettes, 200 percent; cotton, 60 percent; wheat, 10 percent; and passenger vehicles, from 30 to 100 percent. Meanwhile, a 35 percent across the board reduction in import tariffs became effective on July 31, 1995, and is now being implemented by Nigerian Customs, thus temporarily reducing the above listed duty rates. This action came in the wake of representations from the business community pointing out that even though tariffs were reduced somewhat in early 1995, customs duty calculations are now made on the basis of 80 naira to the dollar, rather than the official rate of 22 naira to the dollar as used in 1994. In October 1995 the Nigerian Ports Authority announced reductions in port charges of 60 percent in Lagos and 70 percent at the Delta ports. Other import restrictions apply to aircraft and ocean-going vessels. Guidelines mandate that all imported aircraft and ocean-going vessels be inspected by a government authorized inspection agent. In addition, performance bonds and offshore guarantees must be arranged before either 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 value greater than $1,000 are subject to preshipment inspection.

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

6. Export Subsidies Policies

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

The NEPC also administers the Export Expansion Grant Program, a fund which provides grants to exporters of manufactured and semimanufactured 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 Berne (copyright) Convention, the Universal Copyright Convention and the Paris (industrial property) Convention. The country became a member of the World Intellectual Property Organization (WIPO) in January 1995. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Despite active participation in international conventions and the apparent interest of the government in intellectual property rights issues, little has been done to stop the widespread production and sale of pirated tapes, videos, computer software and books in Nigeria.

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

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

In the past, few companies have bothered to secure trademark or patent protection in Nigeria because it is generally considered ineffective. Losses from poor intellectual property rights protection are substantial, although the exact cost is difficult to estimate. The majority of the sound recordings sold in Nigeria are pirated copies and the entire video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is also common. Violation of patents on pharmaceuticals is also a problem. The International Intellectual Property Alliance estimated that U.S. companies lost $39 million in 1988 due to copyright piracy, excluding losses from computer software.

8. Worker Rights

a. *The Right of Association.*—Nigerian workers, except members of the armed forces and employees designated essential by the government, may join trade unions and may strike. Essential employees include firefighters, police, employees of the Central Bank, the security printers (printers of currency, passports, and government forms), and customs and excise staff. Nigeria has signed and ratified the International Labor Organization's (ILO) Convention on Freedom of Association. However, the government has decreed a single central labor body, the Nigerian Labour Congress (NLC), and deregistered other unions. Under Nigerian labor laws, any nonagricultural enterprise which employs more than 50 employees is obliged to rec-

ognize trade unions and must pay or deduct a dues checkoff for employees who are members. However, the government has threatened to withdraw the dues checkoff provision and make the payment of union dues completely voluntary if unions pursue strikes. As a result of the government's failure to abide by ILO conventions to which it has subscribed concerning worker rights and freedom of association, it is currently subject of an ILO "special paragraph" censuring the Nigerian government.

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

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

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

e. *Acceptable Conditions of Work.*—Nigeria's 1974 Labor Decree established a 40 hour work week, prescribed 2 to 4 weeks of annual leave, set a minimum wage and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree also states that workers who work on Sundays and legal public holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. The last government review of the minimum wage, undertaken in 1991, raised the monthly minimum wage from 250 naira to 450 naira ($20.45 in 1991 but only $5.19 in 1995). The 1974 Decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents. Enforcement of these laws by the Ministry of Labor has been largely ineffective.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		81
Food & Kindred Products	(1)	
Chemicals and Allied Products	13	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Other Manufacturing	2
Wholesale Trade	(1)
Banking	(1)
Finance/Insurance/Real Estate	(1)
Services	(1)
Other Industries	0
TOTAL ALL INDUSTRIES	402

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)	74.1	77.6	78.3
Real GDP Growth (Pct.)	1.1	2.3	3–4.0
GDP (at current prices)	105.7	123.8	130.1
GDP by Sector:			
Agriculture	4.8	3.5	3.4
Mining and Quarrying	9.2	6.5	3.1
Energy and Water	4.3	3.2	2.5
Manufacturing	24.5	16.4	16.9
Construction	3.4	2.1	2.0
Wholesale/Retail Trade	17.2	10.1	10.2
Financial Services	17.2	10.3	10.6
General Government	16.1	9.7	9.9
Net Exports of Goods and Services	1.7	2.3	1.3
Real Per Capita GDP	2,900	3,004	3,081
Labor Force (millions) (excluding former homelands)[2]	12.3	12.3	13.1
Unemployment Rate (percent)[2]	32.6	32.6	32.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	3.9	20.6	15.6
Prime Overdraft Rate (percent at year-end)	16.9	16.3	18.5
Personal Savings Rate	4.7	3.6	1.8
Producer Price Index	6.6	8.2	[3] 10.9
Consumer Price Index	9.7	9.0	[3] 10.6
Exchange Rate (rand/dollar—annual average):[4]			
Financial	4.3	4.5	N/A
Commercial	3.2	3.6	N/A
Unified	N/A	N/A	3.7
Balance of Payments and Trade:[5]			
Total Exports FOB	24.0	24.9	26.6
Exports to U.S.	1.6	1.2	1.2
Total Imports CIF	18.0	21.2	25.6
Imports from U.S.	2.4	3.4	4.0
Aid from U.S. (US$ millions)	80	212	187
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[6]	25.5	27.8	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995
Debt Service Payments Paid[6]	0.8	N/A	N/A
Gold and Foreign Exchange Reserves	2.4	3.1	3.5
Trade Balance	1.5	−0.6	−0.9
Trade Balance with U.S.	−0.8	−2.2	−2.8

[1] Figures for 1995 are year-end projections based on second quarter statistics.
[2] All estimates regarding population and unemployment are speculative due to incomplete census of homeland populations.
[3] As mentioned above, 1995 estimates are based on second quarter statistics. Because of a precipitous fall in both consumer and producer prices beginning in April 1995, actual year-end figures are expected to be considerably lower than those projected here.
[4] Prior to 1995, South Africa maintained an exchange rate for financial transactions and another for all others. The dual exchange rate was eradicated under a unified rand in early 1995.
[5] All South African trade statistics include export and import data for the five member countries of the Southern African Customs Union (SACU) (i.e., Botswana, Lesotho, Namibia, South Africa, and Swaziland). Trade within the SACU is not included.
[6] During the apartheid era, debt estimates were kept secret by the South African government. The debt estimates cited here are recent estimates released by the South African Reserve Bank and reflect a considerable upward adjustment of unofficial estimates from previous years.

1. General Policy Framework

South Africa is a middle-income developing country with an abundant supply of natural resources, well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the ten largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. With nearly two years having passed since the historic election of President Nelson Mandela in the country's first multi-racial elections, South Africa remains the most advanced, broadly-based, and productive economy in Africa, with a Gross Domestic Product (GDP) nearly four times that of Egypt, its closest competitor on the African continent.

Despite a decades-long era of apartheid policies which ensured the inefficient use of human resources, under investment in human capital, labor rigidities, large budgetary outlays for duplicate layers of government and facilities, extensive governmental interference in the economy, and a lack of foreign investment, resource inputs, and imported goods borne of international sanctions, the new South Africa now features an economy in a strong period of recovery. After more than four years of negative real GDP growth, the South African economy responded in 1993 with 1.1 percent real growth. The election of President Nelson Mandela in early 1994 saw an even greater improvement with 2.3 percent real growth for year-end 1994. Estimates for 1995 growth hover between three and four percent and most economists predict 1996 growth in excess of 3.5 percent. All economic sectors, with the exception of the mining industry, which is plagued by labor unrest and the mining of low-grade ore, have shared in this economic recovery. Nonetheless, the South African economy must strive for growth between five and ten percent to offset rapid population growth estimated at 2.4 percent per annum.

A primary objective of President Mandela's Government of National Unity (GNU) has been to address the historical inequities ir political, economic, and social opportunities between black and white South Africans bequeathed by apartheid era regimes. While much remains unfinished in eliminating apartheid's legacy and meeting the black community's aspirations, some progress has been made in reducing economic distortions caused by past racial policies. Legal restrictions which prevented black South Africans from owning businesses, obtaining skilled jobs, or living in major urban centers have been eliminated. Black trade unions have been recognized and spending on socio-economic development for blacks, including education and health care, has increased substantially. Nonetheless, the disheartening effects of apartheid-era policies, particularly the "bantu" education system, will be felt for years to come.

The new South African government has already taken steps to address many structural problems within the South African economy. Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank now operates in much the same way as Western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. In the past four years, restrictive monetary policy through the maintenance of relatively high central bank lend-

ing rates has curbed domestic spending on imports and reduced inflation to its lowest rates in twenty years.

Although South Africa has traditionally pursued conservative fiscal policies, apartheid-era government deficit expenditure on large military outlays, subsidies to domestic industries, and duplicate bureaucracies for black and white South Africans led to the creation of a sizable debt. The exercise of considerable fiscal constraint by Mandela's Government of National Unity has sought to counter this trend and has succeeded in limiting real government consumption expenditure to under 0.5 percent for the second consecutive year. The public deficit as a ratio of GDP has accordingly declined from 8.6 percent in 1992, to 6.4 percent in 1993 and 5.8 percent in 1994. Higher increases in revenues than expenditures accounted for these improved deficit figures. Nonetheless, a public deficit of this level is still unsustainable and, if maintained over the long term, could result in extremely high levels of government debt. As these levels represent double the global norm of three percent of GDP, the deficit could become an increasingly powerful constraint on future governmental policy.

The South African government primarily finances its debt through the issuance of R150 denomination government bonds. To a lesser extent, due to its adverse effect on reserves, the government has opted to finance some short-term debt through the sale of foreign exchange and gold reserves. As a corollary of its restrictive financial policies, the South African government has not opted for financing deficit spending through loans from either domestic or international commercial banks.

2. Exchange Rate Policies

Under South African exchange regulations, the South African Reserve Bank (SARB) has substantial control of foreign currency. Exchange controls are administered by the SARB's Exchange Control Department and through commercial banks that have been authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized" foreign exchange dealers. In addition, the SARB is the sole marketing agent for gold, which accounts for roughly 30 percent of export earnings. This provides the SARB wide latitude for determining short-term exchange rates. Except for a period in 1987 when the SARB followed an implicit policy of fixing the rand against the dollar, monetary authorities normally allow the rand to adjust periodically in an attempt to stabilize external accounts.

The severe strain of international sanctions on South African gold and foreign exchange reserves caused the South African government to reimpose in 1985 comprehensive exchange controls previously lifted in 1983. Among these controls was the reinstitution of the dual exchange rate in which a more favorable exchange rate applied to foreign investment flows and outflows (the financial rand) and a less favorable one to all other transactions (the commercial rand), to attract international capital. Despite warnings from the South African Reserve Bank that the low level of hard currency reserves necessitated continued inflows of long-term capital, the Government of National Unity proceeded with its economic liberalization plans by eliminating the financial rand under a unified exchange rate on 20 March 1995. As a result, all foreign exchange transactions are now conducted through a unitary exchange rate.

Nonetheless, South Africa still maintains several exchange rate controls as a hedge against capital outflows. A cautionary approach to further liberalization is the most likely scenario as current South African foreign exchange reserves provide for less than two months coverage of import demand. Most salient among the remaining foreign exchange controls is the requirement that all South African nationals intending to purchase foreign exchange apply for a license to do so with the South African Reserve Bank. The South African government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby an equivalent amount of foreign exchange is invested in South Africa by the foreign partner as collateral. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the South African government will do so until foreign reserve levels approach the three-month coverage level.

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. Both personal and corporate income tax rates are among the highest in the world. Although the government planned to phase in both individual and corporate tax rates through year end 1999, fiscal constraints have slowed plans to do so. In April 1993, the South African government increased the Value Added Tax (VAT) rate from its previous level of 10 percent to 14 percent in an effort to cover the shortfall in government revenues and meet the increasing expenditure mandated by the socio-economic policies of the Reconstruction and Development Program (RDP). In 1994, the secondary corporate tax on dividends was increased from 15 percent to 25 percent. While maintaining the maximum personal income tax rate at 45 percent on incomes in excess of R80,000 (about U.S. Dollars 22,000) for married taxpayers and R56,000 (about U.S. Dollars 15,000) for single taxpayers, the government did, however, impose a "one-time" levy in 1994 of 5 percent on all income over R50,000 (about U.S. Dollars 13,700)—both corporate and individual—to finance overruns associated with the governmental transition. Although officials promised that this tax would be a "one-time only" assessment, rumors of a second levy have already surfaced.

On a more positive note, the South African government did undertake some measures in 1994 towards easing the tax burden on foreign investors, by reducing the corporate primary income tax rate to 35 percent from its previous rate of 40 percent. In addition the non-resident shareholders tax on foreign investors was scrapped effective 1 October 1995.

4. Debt Management Policies

In 1985, burdened with large capital outflows and intense pressure against the Rand, and denied access to foreign capital by international sanctions, the South African government declared a unilateral standstill on amortization payments to private concerns. Interest payments, however, were continued, and amortization payments to international organizations and foreign governments were unaffected, 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 1993, the government, with the consensus of South Africa's major political parties, finalized a debt agreement with major western banks on $5.0 billion worth of mostly private debt caught inside the "standstill net.

During the apartheid era, actual debt estimates were considered state secrets of the South African government. Those debt estimates released by the government and reported by international financial authorities during the apartheid years must, therefore, be viewed with skepticism. With the election of Mandela's Government of National Unity, the South African Reserve Bank has sought to redress this problem and issue revised estimates of foreign and domestic debt. Although these revisions reflect a significant upward adjustment of previous estimates, they, nonetheless, indicate relative debt stability in recent years. At the end of 1994, the SARB reported that total foreign debt amounted to $27.9 billion. The ratio of total foreign debt to GDP has remained steady at around 22.9 percent over the past four years, while interest payments as a percentage of total export earnings declined slightly from 6.6 percent in 1993 to 6.4 percent in 1994.

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter on a regular basis. In December 1993, after 27 years of economic isolation, South Africa became an IMF borrowing nation with an $850 million drought relief loan, which replenished South Africa's strained foreign exchange reserves and normalized its international financial relations. South Africa is also currently engaged in technical discussions with the World Bank regarding the possibility of sizable bank loans to assist with its ambitious RDP objectives.

5. Significant Barriers to U.S. Exports

Under the terms of the Import and Export Control Act of 1963, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes such goods as foodstuffs, clothing, fabrics, footwear, wood and paper products, refined petroleum products and chemicals.

Although the South African government eliminated the much maligned import surcharge on all goods effective 1 October 1995, in conformity with its World Trade Organization (WTO) commitments, it still maintains a complex tariff structure. Despite public commitments to the simplification and eventual reduction of tariffs within the WTO framework, the South African government plan has led, nonetheless, to an increase in some tariffs, including hikes of up to 180 percent on certain

steel products. While many goods enter duty-free and those subject to duty normally pay at rates between 5 and 25 percent, some rates of tariff protection (especially luxury items and automobiles) persist in excess of 60 percent. To be sure, the government remains publicly committed to its WTO obligations and simplification of the tariff structure has yielded some success in reducing tariff barriers. One such case is that of import duties on computer components which were lowered from 11.5 to 6.9 percent in September 1995.

6. Export Subsidies Policies

The primary subsidy regime of the South African government is the General Export Incentive Scheme (GEIS) through which South African exporting companies receive direct non-discriminatory cash subsidies based on the value of exports, the degree of beneficiation or processing, and the local content of the exported product. The GEIS was recently downsized in early 1995 and is expected to be eliminated by the end of 1997. Under this most recent revision, subsidies for fully manufactured products were lowered from 25 percent to 14 percent of export value on 1 April 1995, to 12 percent on 1 April 1996 and to 10 percent on 1 April 1997 until the wholesale elimination of the program on 31 December 1997. Subsidies for partially manufactured products dropped from 12.5 percent to 3 percent on 1 April 1995; to 2 percent on 1 April 1996; and to 0 percent on 1 April 1997. Subsidies on raw materials and beneficiated raw materials were eliminated on 1 April 1995. In addition, categorization of the various goods eligible for GEIS subsidies were re-defined such that many goods previously defined as "partially manufactured" were downgraded to "beneficiated" and so lost eligibility for subsidies.

Another export incentive of the South African government is the Export Marketing Assistance scheme (EMA) which offers financial assistance for the development of new export markets, through financing for trade missions and market research. Other subsidies include electricity and transport rebates for businesses located in designated development corridors. Provisions of the Income Tax Act also permit accelerated write offs of certain buildings and machinery associated with beneficiation processes carried on for export and deductions for the use of an export agent outside South Africa.

7. Protection of U.S. Intellectual Property

Despite the existence of a comprehensive legal framework protecting intellectual property rights (IPR) and membership in international protocols like the Paris Convention for the Protection of Industrial Property, the Berne (copyright) Convention for the Protection of Artistic and Literary Works, and the World Intellectual Property Organization (WIPO), South Africa has been the target of persistent complaints from business and the International Anti-counterfeiting Coalition concerning the intentional misappropriation by South Africans of internationally recognized trademarks. Such consistent misappropriation of internationally-known U.S. trademarks led the U.S. Trade Representative to place South Africa on the Special 301 Watch List as a country that denied adequate and effective IPR protection. An out-of-cycle review of South Africa's IPR protection, originally scheduled to be completed by September 1995, was recently delayed in order to continue monitoring developments by South Africa to address several outstanding U.S. trademarks concerns pending in South African courts.

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

Despite the volume of legal statutes protecting IPR, foreign firms continue to complain of trademark and IPR infringements. In 1994–1995, a large number of internationally-known U.S. companies complained of IPR infringements, most notably in the children's toys, franchise foods, and women's apparel sectors. Many of these complaints focused on the problem of street vendors who pirate the trademarks of internationally-known concerns. When a complaint has been lodged, the South African government has enforced its laws by conducting raids on suspected pirates. A more serious problem, however, exists where South Africans have registered well-known foreign marks in anticipation of future investment by the foreign mark owner.

To date, those U.S. firms seeking redress through the South African legal system have not fared well. In one well-publicized nuisance trademark dispute involving an internationally-known U.S. firm, a South African judge found the U.S. firm lacking in intent to use the trademark and expunged its mark at the request of the South African "nuisance registrant." Although the U.S. firm has appealed the case, (on the grounds that apartheid-era sanctions prevented use of the trademark), legal authorities found the ruling ominous for future IPR protection. Nonetheless, the South African government has stated its strong support for and commitment to implement fully its Trade-Related Aspects of Intellectual Property (TRIPs) obligations under the World Trade Organization.

Another IPR concern is the extent of computer software piracy in South Africa. The Business Software Alliance (BSA), a global body with active anti-piracy programs in over 50 countries, estimates that as much as 70 percent of South Africa's software is pirated, resulting in a net loss of over $56 million in revenue to computer firms. In addition, the U.S. motion picture industry reports that piracy, including unauthorized public performances, video piracy, and "parallel imports" pose a serious problem to doing business in South Africa. Likewise, U.S. pharmaceutical firms operating in South Africa express similar concerns regarding "parallel imports."

8. Worker Rights

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

South Africa's largest trade union federation, the Congress of South African Trade Unions (COSATU) is formally aligned with the African National Congress (ANC) and the South African Communist Party (SACP). Over 60 former COSATU members serve in national and provincial legislatures and administrations. More COSATU members will enter government with the conclusion of the November 1995 local elections. The second largest trade union federation, the National Council of Trade Unions (NACTU), while officially independent of any political grouping, has close ties to the Pan Africanist Congress (PAC) and the Azanian Peoples Organization (AZAPO).

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

The LRA also accords the right to strike to public sector employees, with the exception of essential services and the three components of the security services mentioned above. While this right was first asserted in the Public Sector Labor Relations Act of 1993, the new LRA simplifies and rationalizes collective bargaining in the public sector and the resort to industrial action.

The International Labor Organization (ILO) readmitted South Africa in 1994. Originally an ILO member since its inception in 1919, South Africa withdrew from the ILO in 1964. Following the reinstatement, the international labor conference rescinded its declaration concerning action against apartheid. There is no South African government restriction against union affiliation with regional or international labor organizations.

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

Several recently-created fora have served to strengthen and institutionalize the role of collective bargaining in recent months. The creation of the National Economic Development and Labor Council (NEDLAC), a tripartite negotiating forum, has served to solidify the role of trade unions as social partners with government and

business in the formation of economic and labor policy. In addition, the new LRA creates workplace fora which will allow for better shopfloor communication between management and labor over issues of work organization and production. To receive statutory protection, these fora can only be initiated by trade unions in businesses with more than 100 employees. It is hoped that these provisions will be expanded in time to include workplaces with smaller workforces.

To further reduce the adversarial nature of South African labor relations, the new LRA also created a Commission for Conciliation, Mediation, and Arbitration (CCMA), which promises to play an aggressive, interventionist role in dispute resolution before parties move to full-fledged strikes or lock-outs. In those instances in which the CCMA is unable to resolve a dispute, the LRA permits its referral to the labor court. It is expected that this will be a rarely used option, however, as the intent of the LRA is to reduce judicial intervention into labor relations and encourage negotiated resolution whenever possible.

South Africa has no export processing zones.

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

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

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

Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries. Although government focus on these issues has increased substantially (highlighted by the passage in 1993 of the Occupational Health and Safety Act), South African industrial and mining processes are still considered hazardous by international standards. Parliament is currently studying a Mines Commission of Inquiry on Health and Safety Issues in the mining sector, to determine ways to improve existing mine health and safety legislation.

Although current South African occupational health and safety laws require that an employer not place employees at unreasonable risk, they do not give employees the right to remove themselves from hazardous jobs. An employee who leaves a worksite as a result of hazardous work conditions could face disciplinary action or dismissal. It should be noted, however, that South African occupational health and safety laws do provide protection from dismissal or reduction in salary/rank for whistle-blowing workers who report or file complaints against unsafe working conditions.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		623
Food & Kindred Products	35	
Chemicals and Allied Products	168	
Metals, Primary & Fabricated	57	
Machinery, except Electrical	122	
Electric & Electronic Equipment	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	(1)	
Other Manufacturing	185	
Wholesale Trade		84
Banking		0
Finance/Insurance/Real Estate		(1)
Services		6
Other Industries		39
TOTAL ALL INDUSTRIES		1,044

[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]

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP (1989–90 prices)[3]	262.8	297.4	310.8
Real GDP growth (percent)	3.9	5.4	3.1
GDP (at current prices)	281.4	321.9	343.9
By Sector:			
Agriculture	10.9	11.1	10.9
Energy and Water	8.9	9.6	9.8
Manufacturing	39.4	46.7	48.8
Construction	16.8	19.4	19.1
Ownership of Dwellings	26.1	28.9	30.4
Finance, Property and Business Services	32.6	36.0	38.7
Other Services[4]	17.7	20.2	22.3
Gov't, Health, Education[5]	37.3	10.0	10.9
Net Exports of Goods & Services	−0.2	−3.3	−2.0
Real Per Capita GDP (US$ 000's)	14.9	16.7	17.3
Labor Force (000's)	8,619	8,775	9,003
Unemployment Rate (percent)	10.9	9.8	8.5
Money and Prices (annual percentage growth):			
Money Supply (M3)	5.6	9.4	6.1
Base Interest Rate[6]	5.1	5.2	7.5
Personal Savings Ratio (percent)	3.4	3.8	4.2
Retail Price Index	N/A	N/A	N/A
Consumer Price Index	1.9	2.6	4.0
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (AD1=U.S. cents)	68.0	73.2	73.8
Percentage Change	−8.1	−7.6	−0.8
Balance of Payments and Trade:			
Total Exports (FOB)	42.2	46.9	50.0
Exports to U.S.	3.4	3.3	3.3
Total Imports (FOB)	42.4	50.2	52.0
Imports from U.S.	9.0	11.0	12.0
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
Gross External Public Debt	66.6	74.7	76.0
Debt Service Payments (paid)	6.3	7.1	7.3
Gold & Foreign Exchange Reserves	13.7	14.6	14.6
Trade Balance	−0.2	−3.3	−2.0
Trade Balance with U.S.	−5.6	−7.7	−8.7

[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes are calculated in $A.
[2] 1995 figures are all estimates based on available monthly and quarterly data in November 1995.
[3] GDP at factor cost for base year indicated (1985 Data superceded).
[4] "Other Services" includes community, recreation, personal and other services.
[5] Includes Government Administration and Defence, Education, and Health and Community Services.
[6] Figures are actual, average annual interest rates, not changes in them.

1. General Policy Framework

Australia's gross domestic product (GDP) in 1995 was estimated to be $343.9 billion. Real GDP is estimated to have grown by 3.1 percent in 1995, compared to growth of 5.4 percent in 1994. As economic growth slowed to a more sustainable rate in 1995, the unemployment level fell to a level between 8.0 and 8.5 percent, while annual inflation rose to above 5 percent.

U.S. economic interests in Australia are substantial, including direct investment worth approximately $26 billion and a bilateral trade surplus of approximately $8 billion.

Although in area Australia is the size of the contiguous United States, its domestic market is limited by a small population (18.0 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 1994, primary products accounted for 57 percent of the total value of goods and services exports.

To increase Australia's international competitiveness, the government has continued its longstanding effort to reduce trade barriers and deregulate large segments of the economy.Privatization of government services at both the federal level (airlines, banks, telecommunications) and state level (water treatment, transportation, electricity, banks) is being pursued. 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.

As part of its long term effort to reduce the size of the budget deficit, and as a means of slowing the rate of economic growth to a level sustainable over the long term, the Australian Government presented a budget surplus for the fiscal year (AFY) 1995–96. The surplus of $520 million (0.1 percent of GDP) was generated mainly through asset sales (the largest being the sale of the government-owned air line QANTAS) and an increase in the company tax rate. While the government may have achieved its target of a budget surplus three yearsearlier than anticipated, the actual 1995–96 surplus may be less than forecast; difficulties regarding the private leasing of airports currently operated by the Federal Airports Corporation will cause government revenue to fall below its projected level.

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. The last official government interest rate change was in December 1994, when the cash rate was raised by 100 basis points to 7.5 percent.

An original member of the WTO (the Australian government ratified the Final Act in December 1994), Australia is a strong supporter of the Uruguay Round Final Act liberalizing international trade. Australia also strongly supports liberalizing trade within the Asia-Pacific region under the Asia Pacific Economic Cooperation (APEC) forum's Bogor declaration call for free trade in the region by 2010/2020.

Current Australian Government economic policy has competing priorities to contend with: the need to curb rising inflation and wages and the need to kickstart stagnant employment growth. In addition, the current account is a significant influence on economic policy. In 1995, the current account deficit reached an estimated $18.5 billion (5.3 percent of GDP), up from $15.5 billion (4.8 percent of GDP) in 1994. Otherwise, the Australian economy appears to have settled into a sustainable annual growth path between 3 to 4 percent. The central debate in economic policy for the first half of 1996 will be the stance of monetary policy, which has remained unchanged since December 1994.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. Official policy is not to defend any particular exchange rate level. In practice, however, the Reserve Bank 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.

Australia does not have major foreign exchange controls beyond requiring Reserve Bank approval if more than AD5,000 ($3,650) in cash is to be taken out of Australia at one time, or AD50,000 ($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 microeconomic reform. Initially broad in scope, the Australian government's program is now focusing on industry-by-industry, microeconomic changes designed to compel businesses to become more competitive.

The strategy has three principal premises: protection must be reduced; the pace of reform needs to be accelerated; and industry must learn to do without high levels of protection.

Towards those ends, a phased program to cut tariffs by an average of about 70 percent was begun July 1, 1988, and will 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) are supposed to have those benefits reduced each year until the bounties expire. With an election due in early 1996, however, there is some consideration being given to extending a few of the bounties beyond their currently programmed expiration dates. The government's long anticipated innovation statement reportedly will contain a final decision on the bounty question. 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 also have adverse effects on U.S. exporters and services industries.

4. Debt Management Policies

Australia's gross external public debt is estimated to be around $76 billion, or 22 percent of GDP. That figure represents 45 percent of Australia's gross external debt; the remaining 55 percent is owed by the private sector. Gross interest payments on public debt totaled $4.0 billion in AFY 1994/95, representing 5.6 percent of exports of goods and services. Private sector debt service totaled $4.0 billion, an amount equal to another 5.6 percent of export earnings. On an overall basis, therefore, Australia's debt service ratio was 11.2 percent, down from AFY 1993/94's 13.4 percent.Standard and Poor's general credit rating for Australia remained AA during 1995.

5. Significant Barriers to U.S. Exports

The U.S. enjoyed an estimated $8.7 billion trade surplus with Australia in 1995. The U.S. is the number one source of imports in Australia, with a 22 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.

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.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal, and travel firms are established here. In 1992 the Government announced a complete liberalization of the banking sector and new foreign banks are 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-Aus-

tralians. 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 1, 1993. From that date forward, 50 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian programs. Trade sources indicate that the content regulation did not have a substantial impact on the amount of U.S.-sourced 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 marginally, to 44 percent. In September 1995, the ABA completed a review of the broadcasting quota. It decided to increase the local content requirement to 55 percent effective January 1 1996.

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. There is some speculation that the government may increase that requirement to 15 percent in 1996.

State governments restrict development of private hospitals. Their 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 and now follows the WTO Agreement on Technical Barriers to Trade. 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 kilograms or milliliters 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 WTO obligations, lack of utility and effect on trade.

Motor Vehicles: Passenger vehicle tariffs, currently 27.5 percent, will drop to 25 percent on January 1, 1996 and will be drop to 15 percent on January 1, 2000. Under automotive arrangements announced in March 1991, automobile manufacturers may import duty free dutiable imported components up to a maximum value equal to 15 percent of their automobile production in a given year. In addition, under terms of the export facilitation scheme, local manufacturers of vehicles and automotive components can receive an offset on the tariff on finished vehicles they import for sale in Australia in an amount equal to the value of their exports of vehicles/components times the duty rate on the vehicles imported. Under the Motor Vehicle Standards Act of August 1, 1989, the import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months.Commercial importers must apply for a "compliance plate" costing AD20,000 ($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 liberalizations opening the economy even further to foreign investment, although Australia maintains an investment screening mechanism which discriminates against foreign investors. In the mining sector (excluding uranium), the 50 percent Australian equity and control guideline for participation in new mining projects, and the economic benefits test for acquisitions of existing mining businesses have been abolished. In almost all sectors of the economy, the thresholds above which foreign investment proposals must be examined by the Foreign Investment Review Board (FIRB) have been increased. Proposals to acquire 15 percent or

more of a company or business with total assets below AD50 million ($36.5 million), or takeover an off-shore company with Australian subsidiaries or assets valued below AD50 million will no longer be examined. Proposals above the threshold will be approved unless found contrary to the national interest. The only sectors in which the new liberalizations do not apply are uranium mining, civil aviation, the media, and urban real estate.

Divestment cannot be forced without due process of law.There is no record of forced disinvestment outside those 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 WTO Agreement on Government Procurement (AGP). However, in June, 1994 the government announced an interagency examination of the code and the question of possible adherence. In May 1995, the Department of Foreign Affairs and Trade published a discussion paper on AGP accession issues. The public comment period on this paper is currently open and a final decision is not expected until late 1996.

The federal government abandoned the civil offset program in 1992, but replaced them with Partnerships for Development programs. Three state governments still require offsets in some cases.

Since 1991, foreign information technology companies with annual sales to the GOA of AD10–40 million ($7.3–29.2 million) have been required to enter into fixed term arrangements (FTAs), and those with sales greater than AD40 million ($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&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 was a panel of 15 selected private companies through which all Commonwealth information technology (IT) requirements involving systems integration activity were to be sou ed, except for purchases with an estimated value of less than AD1 million ($0.7 million). Firms applying for panel membership were evaluated on "demonstrated competence, commercial viability and potential to contribute to government policy objectives, including expansion into Asian-Pacific markets, particularly those of North and South-East Asia."

Late in 1994, an interagency review of the RSIP found that the scheme has not made a significant contribution to industrial development. It recommended replacing the RSIP with an "Information Technology Services Common Use Contract Panel (ITSCUCP)." The new panel, which was formed in 1995, will be used in GOA agencies in planning and implementing IT purchases. Membership in the new panel is much broader than the old RSIP. Any IT company can join upon demonstrating acceptable levels of Australian product development, investment in capital equipment, skills development and/or services support, and local sourcing. Potential members of the ITSCUCP also will be evaluated on their Australian R&D activities, export orientation, and development of relationships with Australian/New Zealand suppliers/customers. It is too soon to evaluate the impact of the ITSCUCP on foreign access to Australia's government IT market.

In December 1992 the GOA announced an initiative requiring, beginning in AFY 1993/4, Government Business Enterprises (GBEs—central government-owned companies such as Telstra) 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 have a bias in favor of local firms and could, therefore, become a significant element in determining procurement choices.

The 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 procurements of $7.4 million or more, and establishes a two envelope system for such tenders.

Under this system, bidders will be required to submit detailed information regarding Australian industrial development separately (in "envelope 2"), and bids will be judged both on price/product specifications and industrial development grounds. In October 1995, the Industry Commission published a study critical of the two envelope system and invited public comment on possible changes.

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 result in the lifting of phytosanitary barriers to the importation of U.S. salmon and cooked chicken, among others.

Fruit drinks: 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 was a signatory to the GATT Subsidies Code and agreed to limit export subsidy use according to its WTO commitments.

The Australian government provides export market development-reimbursement grants of up to AD250,000 ($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 producers of books, new ships, machine tools, fuel ethanol, citric acid, and computer 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: citric acid (March 31, 1996); fuel ethanol, 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 export subsidies under the Uruguay Round, were to be terminated on June 30, 1995 in accordance with Australia's Uruguay Round implementing legislation.

The government provides support and research and developments grants to Australian industry for trials and development of internationally competitive products and services for which the federal or state governments are the primary purchasers.

Until recently, electricity production and distribution has been the purview of state governments, some of which subsidize the industry and/or selected users of electricity.Victoria, however, has embarked on an ambitious program of privatization which has seen all distribution companies sold to the private sector, each with substantial participation of U.S. investors. Privatization of generation facilities will begin in 1996. 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, copyrights, designs and integrated circuits are protected by Australian law. Australia is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and 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 20 years from the date the application for a patent was filed. 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. In 1995, a disagreement between the United States and Australian governments surfaced regarding the application of the TRIPS Agreement's requirement to protect pharmaceutical test data. Discussions on this issue continue.

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 and in 1995 the Federal Cabinet decided not to reintroduce it). In September 1988 the Australian Copyright Law Review Committee (CLRC) recommended that parallel importation of computer software be allowed under strict limitations. The Price Surveillance Authority also made this recommendation in December 1992. The CLRC withdrew its recommendation in 1995.U.S. firms oppose that recommendation and are monitoring the situation.

Copyrights: Copyrights are protected under the Copyright Act. Works do not require registration and copyright automatically covers 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 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 well 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; rights enshrined in the Arbitration Act of 1904. Although already well established in practice, legislation established the legal right to strike effective March 30, 1994. 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*—Approximately 35 percent of the Australian workforce 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 some federal and 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,942
Total Manufacturing		8,002
Food & Kindred Products	1,544	
Chemicals and Allied Products	2,445	
Metals, Primary & Fabricated	355	
Machinery, except Electrical	603	
Electric & Electronic Equipment	417	
Transportation Equipment	642	
Other Manufacturing	1,995	
Wholesale Trade		2,152
Banking		1,717
Finance/Insurance/Real Estate		2,056
Services		1,126
Other Industries		2,510
TOTAL ALL INDUSTRIES		20,504

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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (RMB bn/1978 base)[2]	1,446	1,617	1,763
Real GDP Growth (percent)	13.5	11.8	9.5
GDP (at current prices)	392.1	529.4	600.0
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Construction	25.96	34.12	35.00
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	N/A	N/A	N/A
Real per Capita GDP (RMB)[2]	1,220	1,349	1,453
Labor Force (millions)	602	615	626
Official Unemployment (percent)	2.6	2.8	3.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	25	34	34
Base Interest Rate	N/A	N/A	N/A
Personal Savings Rate[3]	40.0	40.0	40.0
Retail Inflation	13.2	21.7	17.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	14.7	24.1	19

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exchange Rate (RMB/US$, year-end):			
Official[4]	5.8	N/A	N/A
Parallel[4]	8.8	8.5	8.3
Balance of Payments and Trade:			
Total Exports (FOB)[5]	91.7	121.0	150.0
Exports to U.S. (CV)[5]	31.5	38.8	47.3
Total Imports (CIF)[5]	104.0	115.7	131.0
Imports from U.S. (FAS)[5]	8.8	9.3	11.5
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	66.0	93.0	130
Debt Services Payments (paid)	9.7	9.1	7.0
Gold and FOREX Reserves	21.2	51.6	74.0
Trade (Merchandise) Balance[5]	−12.2	5.3	19.0
Balance with U.S.[5]	22.8	29.5	35.8

[1] 1995 figures are all estimates based on available monthly data in October 1995. 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 embassy estimates.

[2] Real GDP and real per capita GDP are given in renminbi (RMB) using 1978 prices. All other income and production figures are converted into dollars at the parallel rate.

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

1. General Policy Framework

The Chinese economy has grown at an average rate of nine percent per year since the 1979 economic reforms, with growth rates of 13 percent in 1992–1993, according to official data.Tight credit and other anti-inflation policies led to slower growth in 1994, and real growth in 1995 is officially projected to fall to 9–10 percent. (Though China's official GDP figures tend to overstate growth, official data, in general, reflect significant economic trends.) China continues to attract large inflows of foreign direct investment, which in the past has enjoyed substantial tax benefits and other preferential policies. Believing that current investment flows are sufficient, however, Beijing has recently begun to reduce a number of investment incentives. Reform policies generally focus on the use of market forces to sustain growth, as well as the economic dynamism of the rapidly growing private sector.

The draft five year plan for 1996–2000 reaffirmed the importance of China's economic expansion and, by implication, its private sector, calling for eight to nine percent annual GDP growth through 2000 and a further doubling of GDP during 2000–2010. Economic reform and China's opening to the outside world are central to China's development formula, but the draft five year plan also reconfirms the role of state-owned enterprises, which still directly account for more than one-third of total industrial output. As China deepens its reforms, new challenges will include the establishment of legal and political structures to sustain high levels of foreign as well as private domestic investment. China must also develop capital markets and reform financial institutions to allocate more efficiently the large amounts of savings in the economy and to fund, both domestically and internationally, infrastructure essential to sustained growth.

Restraints on new bank lending, the reimposition of administrative price controls, and the slowdown in growth have moved the 1995 retail price index down to about 17 percent from last year's 22 percent. In October 1995, the retail price index was 10.3 percent (year on year) and declining. However, administrative controls on the prices of basic raw materials and some food items hide inflationary pressures which may yet affect future price levels. Although credit policy has been tightened, the continued growth of non-performing intercompany lending or "triangular debt" among enterprises, though difficult to quantify, is partly reflected in the renminbi (RMB) 760 billion in accounts receivable held by Chinese firms in October 1995, an increase of RMB 128 billion compared to October 1994. The continued monetization of non-performing state enterprise debts, in the form of directed lending by state policy banks, hampers efforts to establish macroeconomic monetary discipline.

Inflation and employment are two key interactive issues for policymakers, who place a high priority on stability. As inflation trends downward, unemployment has risen. During 1995, general concern over unemployment has slowed the pace of reforms. Though official figures record a three percent unemployment rate, there is substantial underemployment in the state sector workforce and in agriculture.

The draft 1996–2000 five year plan says that a national priority will be to deal with growing regional income disparities. This requires strengthening the government's fiscal capacity and its ability to equitably redistribute wealth. Tax reform has led to a more simplified code and has reduced the gap in tax rates for state-owned and other enterprises. The government collected 8.9 billion RMB in personal income taxes in the first three quarters of 1995, which is close to 90 percent of the 1995 target. However, tax reforms and the new tax system have yet to raise significantly real government revenues or the share of government revenues in GDP, two key objectives.

China's underdeveloped financial system remains small in comparison to China's economic ambitions and inhibits the efficient allocation of capital. However, China is attempting to move forward with the legal framework needed to improve the banking sector. In 1995, new banking laws were adopted to facilitate the entry of foreign banks to China, although these financial institutions are not permitted to conduct local currency business, and may only participate in wholesale banking in such areas as letters of credit, export credits and, under limited conditions, in commercial loan syndications. China now has 104 foreign bank branches concentrated in coastal areas and large inland cities, including Beijing and Chengdu. The overhang of previous debt in the form of policy loans to the state sector complicates attempts to segregate and to manage policy loans still on the books of domestic state banks. China's large state banks are grappling with this problem, but liquidating state enterprise assets would raise unemployment in the short term. Until a solution to this problem is found, China is likely to continue to restrict foreign banks' participation in local economic activities.

2. Exchange Rate Policies

Chinese authorities describe the current exchange rate as a "managed floating rate." Since January 1995, the RMB/dollar exchange rate has appreciated slightly from about 8.5 to 8.3.The exchange rate is permitted to fluctuate in a narrow band around central rates announced by the People's Bank of China.China uses the RMB/dollar exchange rate as the basic rate, and RMB rates against other currencies are calculated by referring to international market rates of the previous day. This system is not particularly suited to exchange rate fluctuations; the gap between cross rates and international market rates provides arbitrage opportunities to dealers while rendering the central bank cross rates impractical because no transactions occur at the central bank rate. China still lacks a foreign exchange market where foreign exchange dealers interact directly with international markets.

With foreign reserves expanding rapidly, foreign-invested enterprises and authorized Chinese firms currently have liberal access to foreign exchange in China. The RMB is conditionally convertible for authorized trade and current account transactions. Chinese enterprises are required to sell their foreign exchange earnings to Chinese banks. 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 without receiving prior approval from the State Administration for Exchange Control.

China maintains separate foreign exchange rules for foreign-invested enterprises (FIEs), which can maintain foreign currency deposits and keep their foreign exchange earnings. Although FIEs generally have good access to foreign exchange, FIEs must obtain approval for foreign exchange transactions. However, FIEs are currently excluded from the large "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, most FIEs 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 and exchange rates used by Chinese banks for domestic customers. As part of its APEC trade-liberalization "down payment," China has indicated that it will "unify" the foreign exchange procedures for foreign and domestic entities by the end of 1996. Detailed information on how this reform will be administered, however, has not yet been publicized.

3. Structural Policies

Chinese officials claim that prices have been freed for about 95 percent of consumer goods and 85 percent of industrial inputs. As part of its effort to control inflation, however, the Chinese government has intervened in pricing for daily ne-

cessities, basic urban services, and key commodities. China continues to maintain discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. At the same time, foreign-invested enterprises often may use incentives, tax holidays, and grace periods to pay less than the 33 percent corporate income tax to which they would otherwise be subject. In principle, Chinese firms pay a corporate income tax of 30 percent. However, central and local government authorities regularly provide ad hoc tax relief for policy reasons or in response to financial difficulties in the state sector.

In 1994 China issued a "Framework Industrial Policy for the 1990s" which announced plans to issue policies for the automotive, telecommunications and transportation, machinery and electronics, and construction sectors. The automotive industrial policy, issued in July 1994, contains import controls and specific product bans, local content and other performance requirements for foreign investors, and temporary price controls for sedans. In October 1995, Chinese media reported that a new electronics policy on joint ventures may impose high local content and technology transfer requirements. Promulgation of that policy, however, has been delayed, perhaps due to concerns with its compatibility with WTO rules and other international obligations. Sectoral industrial policies for the chemicals and petrochemicals and machinery industries were reportedly under review by the State Planning Commission in autumn 1995, in preparation for submission to the State Council for approval.

In July 1995, China reduced the value-added tax rebate on exports from 17 percent to 14 percent, and during 1995 China fell several billion dollars behind in making rebates to eligible companies. State Tax Administration officials have promised to pay the rebates over the next two years. The State Tax Administration announced further reductions in the value-added tax rebate to take effect in 1996.

4. Debt Management Policies

At the end of 1994 China's external debt stood at about $93 billion, or 77 percent of exports, according to official Chinese data. In the context of China's strong export performance and high foreign exchange reserve levels, its current external debt burden remains within acceptable limits. China's 1994 debt service ratio was 9.1 percent (ratio of repayment of principal and interest on foreign debt to foreign exchange receipts of exports plus services), down from 9.7 percent in 1993, according to Chinese data. However, the ratio of foreign debt to GDP rose to 18 percent in 1995 from 14 percent in 1994. The Asian Development Bank, the World Bank, and Japan are China's major creditors, providing approximately 60 percent of all China's governmental and commercial loans.

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

China's government bond market is still in its infancy.China established a system of primary dealers in 1994, and there are officially about 50 dealers. The Ministry of Finance authorizes them to underwrite bonds on a contract basis for domestic customers. In July 1995, China "auctioned" bonds on a very small scale, but financial experts do not regard these transactions as standard competitive bidding because priority was assigned not according to interest rates but to dealers who most quickly turned in their funds.Domestic interest rates on government bonds are fixed at about one percentage point above bank savings rates, which are "policy," not market, rates. In the last several years, China has introduced a wider variety of maturities and instruments to manage its external and internal debt, but the trend is generally towards more short and medium-term maturities (six months and 1–5 years). Some experts have observed that the sharp rise in government borrowing in 1994 and 1995 (about RMB 103 billion and RMB 10 billion, respectively) reflects the decision of the Third Plenum of the 14th Communist Party Congress that fiscal deficits should be covered by bonds and not indiscriminate "policy loans."

5. Significant Barriers to U.S. Exports

China continues to impose significant barriers to U.S. exports, although reforms are liberalizing China's trade regime. Liberalization of China's import regime has not kept pace with liberalization of its export regime. In addition to prohibitively high tariffs which discourage many imports, China maintains hundreds of formal

nontariff barriers to restrict imports, such as: import licensing requirements; import quotas, restrictions, and controls; and standards and certification requirements. China's restrictive system of trading rights, which severely constrains domestic and foreign-invested enterprises' ability to directly import and export, limits market access and raises the cost of imported goods in China by funneling imports through fee-collecting foreign trade companies. Normally, U.S. suppliers are unable to sell directly to their ultimate customer. Lack of regulatory transparency remains a problem, although China has made important progress in publishing trade-related rules.Use of unscientific sanitary and phytosanitary measures is a barrier to exports of some U.S. agricultural goods.

On October 10, 1992, the United States and China signed a memorandum of understanding (MOU) on market access that commits China to dismantle many of these barriers and gradually open its markets to U.S. exports. The actions China has committed to take are consistent with the obligations of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

In implementing the 1992 market access MOU, China has published numerous previously "confidential" trade laws and regulations, both at the central and subnational levels.Publication of trade-related laws and regulations does not always precede implementation. Information on China's import quotas, crucial for foreign and domestic traders, has yet to be published on an itemized basis, as required in the MOU.

As a direct result of the market access MOU, China has removed over 1,000 quotas and licenses on a wide range of key U.S. exports such as telecommunications digital switching equipment, computers, many agricultural products, and medical equipment. Following elimination of an additional tranche of nontariff measures (NTMs) on July 1, 1995, six months behind schedule, China continued to retain hundreds of NTMs . Under the MOU, China removed another 176 NTMs on January 1, 1996.

Despite the removal of these quotas and licenses, there have been indications that China is erecting new barriers to restrict imports. Examples include new procedures regarding purchases of large-size medical equipment, registration requirements for imported (but not domestically manufactured) chemicals, and new industrial policies in such areas as automobiles and electronics. In addition, continuing restrictions on trading rights can act as a barrier for imports after quotas have been removed, as in the case of crude oil imports.

High and unpredictable tariffs make importing into the Chinese market difficult. Tariffs on imports can run as high as 150 percent on goods such as automobiles. Although foreign-invested enterprises have been able to import capital equipment for their projects duty free, this exemption is expected to be eliminated in 1996. Under commitments in the 1992 market access MOU, China lowered tariffs on several thousand items of interest to U.S. exporters. China has announced that, as part of its APEC "down payment," it will reduce tariffs on more than 4,000 products by a simple average of 30%, effective April 1, 1996. As part of China's effort to accede to the World Trade Organization, the United States and other WTO members are negotiating with China on the further reduction of tariffs of concern to U.S. companies.

Under the market access MOU, China agreed to base standards for the import of agricultural products and livestock genetics on sound science. Since 1992, the United States has signed a number of protocols with China that have opened the door to U.S. exports of such products as apples (from Washington, Oregon, and Idaho), cherries (from Washington), live cattle, bovine embryos, bull semen, ostriches, poultry and birds, swine, rabbits, and horses. On some key agricultural products, however, China continues to use unscientific sanitary and phytosanitary measures to block U.S. exports, especially citrus fruit and pacific northwest wheat. Because of this, the United States placed China on the Super 301 "watch list" for these practices in 1995.

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

In the market access MOU, China agreed to eliminate the use of import substitution policies and measures, and promised that it would not subject any imported products to such measures in the future, nor deny approval for imports because an equivalent product is produced in China. Nonetheless, the Chinese government has continued to require local content requirements and implement other import substitution policies affecting foreign investment in China, such as in the automotive industrial policy announced in 1994.

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

China has only recently begun to reform and open its services sector, and in most areas severely restricts or prohibits access to the market. China has initiated limited experiments in such areas as insurance, retailing, legal services, and tourist resorts. In insurance, Guangzhou was added to Shanghai in 1995 as a second city with limited (one company) foreign participation. In retailing, joint venture department stores approved at the central level (with full trading rights) remain limited to 22 stores in 11 cities and special economic zones, although many joint venture department stores have been approved at the provincial or municipal level (without trading rights). Access in two key areas of interest to U.S. companies, value-added telecommunications and financial services, remains severely restricted.

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

Significant barriers to investment in China warrant further reform. Multiple, time-consuming approval procedures adversely affect establishment of investments. Depending on the locality, investments above $30 million require national as well as local approval. Export requirements, local content requirements, and foreign exchange balancing requirements detract from China's investment climate.

China also encourages the development of favored domestic industries through tax incentives and tariff exemptions.China permits repatriation of profits when a joint venture has earned sufficient foreign exchange to cover the remitted amount. China published investment guidelines in June 1995 cataloguing those sectors in which foreign investment is encouraged, allowed, restricted, or prohibited. China does not provide national treatment to foreign investors on establishment or operation of investments. In some key areas, such as input costs, foreign investors are often treated less favorably than Chinese firms. Foreign investors may not own land in China, though long term land use deals may be approved. In at least one case, a U.S. company has thus far been unable to have an international arbitration award enforced in China.

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

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

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. China reduced the level of its value-added tax rebates to exporters in 1995, and fell billions of dollars behind in making payments on the rebates. In October 1995, a Chinese vice premier announced that a further reduction of the value-added tax rebate level would take effect in early 1996.

In its on-going negotiations to accede to the World Trade Organization (WTO), China maintains that it should have the right to re-introduce export subsidies for

agricultural goods at some point in the future. Negotiations continue, and China's position has met with considerable attention from WTO members.

7. Protection of U.S. Intellectual Property

With the signing of the February 26, 1995, Intellectual Property Rights (IPR) Enforcement Agreement, including a Chinese action plan and a covering exchange of letters, China took a significant step forward in its commitment to take effective measures to reduce IPR piracy. Under the agreement, China established a special enforcement period from March 1 to September 1, 1995, during which the central and local governments launched a crackdown on piracy of copyrighted works and trademark products. China established a State Council IPR Working Conference and enforcement task forces at the local levels to carry out anti-piracy efforts. The agreement also called for new rules for border enforcement, a copyright verification system for audiovisual and CD-ROMs incorporating computer software, and training in IPR enforcement.

China enacted new trademark regulations on August 1, 1995, and regulations on customs protection of IPR on July 5, 1995.However, the customs regulations and implementing rules, which came into effect on October 1, 1995, do not fully follow the IPR agreement and create possible loopholes for IPR violators.

Prior to the signing of the 1995 IPR enforcement agreement, China made significant progress in the enactment of laws and regulations to protect intellectual property. A copyright law went into effect in 1991 and a trade secrets law went into effect in 1993. In addition, China 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 Pact on Protection of Trademarks, and China joined the World Intellectual Property Organization. To monitor Chinese implementation of the IPR agreement and ensure that the agreement is implemented fully, China was placed on the 1995 Special 301 watch list.

China's patent regime is substantially consistent with international standards. The 1992 bilateral intellectual property memorandum of understanding (MOU) committed China to make important improvements in the protection of patented products. The MOU provided for administrative protection of certain U.S. pharmaceutical and agricultural chemicals as of January 1, 1993. In an amendment to China's patent law, China agreed to provide the equivalent of full product patent protection for these products if they were patented in the United States between 1986 and 1993 but not yet marketed in China.

Although China's trademark regime is generally consistent with international practice, piracy of trademarks is still widespread, especially in cases that deal with well-known trademarks. Actions taken against infringers must be initiated by the injured party. Owners of unregistered well-known marks bear full responsibility for providing evidence that their infringed trademark is internationally known and "in the relevant sector of the public" in China.

Pervasiveness of copyright infringement remains among the most serious issues facing U.S. rightholders. Compact disc (CD) plants shut down just prior to the signing of the 1995 IPR agreement have reopened and continue to produce pirated CDs near or at their previous levels. Although China has had real success in the reduction of piracy at the retail level, it has not effectively countered piracy at the manufacturing and distribution levels. A copyright title verification system, which was to be established as part of the action plan, has yet to be implemented completely. Furthermore, SID codes which act as unique identifiers of factories that produce CDs have not been placed in all CD molds. U.S. business representatives have had limited access to IPR task forces and many have complained that they must provide complete evidence of the infringement before their case can be considered.

U.S. industry associations estimate an annual production of about 45 million pirated CDs for both the Chinese market and for export. In 1994, they estimated that total lost sales of audio-visual products reached $850 million and that software was pirated at a rate of 98 percent. Pirated production has also shifted to higher valved CD-ROMs and video CDs, with exports surging to higher levels after the IPR agreement.

Market access remains a continuing concern. Under the 1995 IPR agreement, China agreed to permit U.S. individuals and entities to establish joint ventures with Chinese entities in China in the audio-visual sector for production and reproduction. However, investment guidelines issued in July 1995, which prohibit the establishment of joint ventures in movie production, seem to contradict the provisions of the IPR agreement. In addition, informal quotas on imports of movies and possible new regulations which would prohibit joint ventures in the area of software remain IPR market access concerns.

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. China's sole officially-recognized workers' organization, the All-China Federation of Trade Unions (ACFTU), is controlled by the Communist Party.Independent trade unions are illegal. The 1993 revised trade union law required that the establishment of unions at any level be submitted to a higher level trade level organization. The ACFTU, the highest level trade organization, has not approved the establishment of independent unions. Workers in companies with foreign investors are guaranteed the right to form unions, which then must affiliate with the ACFTU.

b. *The Right to Organize and Bargain Collectively.*—China's national labor law, which entered into force on January 1, 1995, permits workers in all types of enterprises in China to bargain collectively. The law supersedes a 1988 law that allowed collective bargaining only by workers in private enterprises. The national labor law provides for workers and employers at all types of enterprises to sign individual as well as collective contracts. Collective contracts should be worked out between ACFTU or worker representatives and management and specify such matters as working conditions, wage distribution, and hours of work.Individual contracts should then be drawn up in line with the terms of the collective contract. Collective contracts must be submitted to local government authorities for approval within 15 days. Through the early autumn of 1995, Chinese union and labor officials reported only a few experiments in collective bargaining. According to the ACFTU, collective bargaining will first be implemented mostly at foreign-invested enterprises where capital interests are clearly delineated.

c. *Prohibition of Forced or Compulsory Labor.*—In addition to prisons and reform through labor facilities, which contain inmates sentenced through judicial procedures, China also maintains a network of "reeducation through labor" camps, to which inmates are sentenced through 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.Chinese justice officials have stated that in reeducation through labor facilities there is a much heavier emphasis on education than on labor. Most reports conclude that work conditions in the penal system's light manufacturing factories are similar to those in ordinary factories, but conditions on farms and in mines can be harsh.

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

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

Every work unit must designate a health and safety officer, and the International Labor Organization has established a training program for these officers. Moreover, while the right to strike is not provided for in the 1982 constitution, the trade union law explicitly recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and to participate in accident investigations. Nonetheless, pressures for increased output, lack of financial resources to maintain equipment, lack of management concern, and a poor understanding of safety issues by workers continue to result in a high rate of accidents.More than 20,000 workers died in Chinese industrial accidents in 1994, and industrial accidents claimed another 6,656 workers' lives during the first five months of 1995.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		552
Total Manufacturing		1,902
Food & Kindred Products	(1)	
Chemicals and Allied Products	99	
Metals, Primary & Fabricated	10	
Machinery, except Electrical	29	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	89	
Wholesale Trade		131
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		38
TOTAL ALL INDUSTRIES		1,699

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)	89,474	94,388	99,107
Real GDP Growth (percent)	6.4	5.4	5.0
GDP (at current prices)	116,359	132,341	146,898
GDP By Sector (percent):			
Agriculture	0.2	N/A	N/A
Energy and Water	2.1	N/A	N/A
Manufacturing	11.1	N/A	N/A
Construction	5.2	N/A	N/A
Rents	3.4	N/A	N/A
Finance[2]	25.8	N/A	N/A
Other Services[3]	36.5	N/A	N/A
Government/Health/Education	15.7	N/A	N/A
Net Exports of Goods and Services (at current prices)	8,025	2,847	−2,000
Real Per Capita GDP (US$)	15,116	15,572	16,008
Labor Force (000s)	2,873	2,973	3,092
Unemployment Rate (percent)	2.0	1.9	3.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.0	13.2	15.6
Base Interest Rate (Prime Rate)	6.5	8.5	9.0
Personal Saving Rate	1.5	3.75	4.25
Retail Inflation[4]	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index[5]	135.9	146.9	158.4
Official Exchange Rate (HK$/US$)	7.736	7.728	7.736
Balance of Payments and Trade:			
Total Exports (FOB)[6]	135,244	151,399	177,137

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exports to U.S. (FOB)[7]	31,107	35,196	39,067
Total Imports (CIF)	139,052	159,909	195,408
Imports from U.S. (CIF)[7]	10,266	11,300	14,803
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Debt Service Payments	0	0	0
Gold and FOREX Reserves[8]	43,003	49,277	54,624
Trade Balance	−3,808	−10,923	−18,271
Balance with U.S.[7]	18,410	20,841	24,264

Statistical note: Biannually the Census and Statistics Department retroactively revises GDP and other economic data.The above figures reflect the August 1995 revisions and thus supersede prior data.

[1]Hong Kong government figures, unless noted. 1995 projections are by the Consulate and are based on first three quarters statistics. 1995 exchange rates were based on HKD 7.736 to USD 1.00, 1994 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]The 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 $504–2067 (approximately 50 percent of households).

[6]Of which domestic exports constituted 21.3 pct. (1993), 19 pct. (1994), and 17.3 pct. (1995 estimate).

[7]Hong Kong merchandise trade data includes substantial reexports (mainly from China) to the United States. Exclusive of those reexports, the data are:

	1993	1994	Jan.-Aug. 1995
Exports to U.S. (FOB)	7,794	7,9	4,965
Imports from U.S. (CIF)	10,266	11,300	9,586
Balance with U.S.	−2,472	−3,353	−4,621
For comparison, the data published by the U.S. Commerce Department are:			
Imports to U.S. (FOB)	10,000	10,1	6,840
Exports from U.S. (CIF)	9,873	11,445	9,433
Balance with Hong Kong	−127	1,303	2,593

[8]Foreign currency assets of the Exchange Fund (U.S. Dollars). 1995 figure is as of September 30, 1995.

1. General Policy Framework

The Hong Kong government pursues economic policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, competition subject to transparent laws (albeit without antitrust legislation) and consistent application of the rule of law. Market forces determine wages and prices in Hong Kong, with price controls limited only to certain government-sanctioned monopolies in the service sector. The Hong Kong dollar has been linked to the U.S. dollar since 1983. 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.Hong Kong consumes more U.S. manufactured and agricultural goods per capita than almost any other economy. U.S. exports to Hong Kong grew by $1.6 billion in 1994, and by $2.3 billion during the first eight months of 1995. There are some market barriers in certain service sectors, in particular medicine, law, and aviation.

Hong Kong is a duty free port. It levies consumption taxes on tobacco, alcoholic beverages, methyl alcohol and some fuels, but otherwise goods trade freely. Hong Kong is also a hub for Chinese and regional trade. In 1994, reexports of goods made elsewhere ($123 billion) were more than four times larger than domestically produced exports ($29 billion). More than 90 percent of reexports originated in or were destined to China. 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 80 percent of Hong Kong's GDP now derives from the service sector, much of it connected in one way or another with China.

Hong Kong is a founding member of the World Trade Organization (WTO) and strongly supports an open multilateral trading system. Hong Kong is a member in its own right of a number of other multilateral economic organizations, including the Asia Pacific Economic Cooperation (APEC) forum and the Asian Development Bank. In other relevant multilateral fora, such as the International Telecommuni-

cations Union or the International Labor Organization, Hong Kong participates as part of the United Kingdom (U.K.) delegation.

For many years Hong Kong's free market 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.

To quote the Chairman of the American Chamber of Commerce in Hong Kong (AmCham), "The Territory's well established legal system, superior infrastructure, communications, freeport status and low taxes make Hong Kong an unbeatable location for regional business operations." In November 1995 over 90 percent of AmCham members expressed "favorable" or "very favorable" views of Hong Kong's business environment over the next five years (1996–2001).

In 1995, the Hong Kong economy shows several signs of moderating. Economic growth has slowed to an annual real rate of five percent, and unemployment jumped from 1.9 percent at the end of 1994 to 3.5 percent in the summer of 1995. Skyrocketing property prices have fallen some 20–25 percent since April 1994, when the government introduced a package of measures designed to curb property speculation, release more land for development, and accelerate major housing projects.

On July 1, 1997, the Peoples Republic of China (PRC) will regain sovereignty over Hong Kong. As guaranteed by the 1984 Sino-U.K. Joint Declaration and the 1990 PRC Basic Law—the latter passed by China's National People's Congress—Hong Kong will become a Special Administrative Region (SAR) of the PRC. China will assume from the U.K. responsibilities for Hong Kong's foreign affairs and defense. However, under China's "one country, two systems" doctrine, Hong Kong has been granted "a high degree of autonomy" in managing its economic, social, legal, budget and other internal matters for fifty years. Hong Kong will remain a separate customs territory with all of its current border arrangements, it will retain its independent membership in economic organizations such as the WTO, and it will retain control of its own economic and financial policies.

Sino-British consultations on transition concerns take place chiefly in the Joint Liaison Group (JLG). The JLG approves agreements with third countries and major economic decisions (such as government-tendered commercial franchises) that will stretch beyond July 1, 1997. Cooperation on transition issues in the JLG has been uneven. There was PRC disagreement over U.K.-introduced changes to the electoral system in 1993. However, in 1995, both sides have reached agreement on other major issues such as the establishment of a Court of Final Appeal for the SAR and the financial support agreements for the new Chek Lap Kok (CLK) Airport and connecting railway. The JLG continues to discuss other important agreements concerning port development and airport franchises.

2. Exchange Rate Policies

The Hong Kong dollar is linked to the U.S. dollar at an exchange rate of HKD 7.8=$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. Hong Kong's prevailing 9 percent inflation rate has meant that savers have continued to face negative real interest rates.

The Hong Kong government remains firmly committed to ensuring currency stability through the linked exchange rate to the U.S. dollar. PRC officials have said they support Hong Kong's policy of maintaining the link after 1997. 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 (HKMA). There are no multiple exchange rates and no foreign exchange controls of any sort. Under the linked exchange rate, the overall exchange value of the Hong Kong dollar is influenced predominantly by the movement of the U.S. dollar against other major currencies. The price competitiveness of U.S. exports is affected in part by the value of the U.S. dollar in relation to third country currencies.

3. Structural Policies

Hong Kong's generally non-interventionist policies have brought rising prosperity and low unemployment to the territory 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. Other factors often cited for Hong Kong's dynamic economic success include a simple, low rate tax structure, a well educated and industrious workforce, and an extremely efficient transportation and communications infrastructure, much of which was built and is operated by the private sector.

Moderating growth and rising unemployment have prompted the democratically elected Legislative Council (Legco) to press for an economic stimulus package in 1995. The Hong Kong government has so far steadfastly resisted.

Hong Kong takes justified pride in its airport, the fourth largest in terms of passenger traffic, and its port, the world's largest in container throughput. 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 CLK Airport and Container Terminal No. 9 (CT–9) are badly needed to ease congestion and ensure Hong Kong's continued competitiveness as a trade center. With recent agreements in the JLG, the new airport is now expected to open in April, 1998. With respect to CT–9, a U.S. terminal operator has a significant interest in the consortium which has won an important bid. An impasse in the JLG over the assignment of contracts, however, has blocked progress on CT–9. The Hong Kong government has said it hopes there may be a resolution to the impasse with the PRC by spring 1996.

4. Debt Management Policies

The Hong Kong government has minuscule public debt.Repeated budget surpluses have meant the HKG has not had to borrow. To promote the development of Hong Kong's debt market, the HKG in March 1990 launched an exchange fund bills program with the issuance of 91-day bills. Maturities have gradually been extended. In October 1993, the HKMA issued five-year notes, with maturities that extend beyond Hong Kong's reversion to Chinese sovereignty. The HKMA plans to issue seven-year notes in late 1995. Under the Sino-British Agreed Minute on financing the new airport and related railway, total borrowing for these projects cannot exceed $2.95 billion, and such borrowing "will not need to be guaranteed or repaid by the government." Liability for repayment will rest with the two statutory bodies: the Mass Transit Railway Corporation (MTRC) and the future Airport Authority.

5. Significant Barriers to U.S. Exports

As noted above, Hong Kong is a duty free port with no quotas, dumping laws, or other barriers to the import of U.S. goods. Minor exceptions include consumption duties levied on tobacco products, alcohol, and automobiles, and import license requirements for textiles, rice, meats, plants, and livestock. Phytosanitary standards are generally compatible with U.S. exports of agricultural products. With a few exceptions, product standards, testing, labelling, and certification requirements are world standard and do not restrict imports; customs procedures are not burdensome. Hong Kong does not restrict U.S. investment or impose conditions regarding export performance, profit repatriation, or local content. Hong Kong was the eleventh largest foreign market for U.S. goods in 1994, although a significant portion of those exports are actually reexported to China.

Hong Kong does not have antitrust laws. Certain sectors of its economy are dominated by monopolies or cartels, some, but not all, of which are regulated by the government. Those companies do not necessarily discriminate against U.S. goods or services, but they can use their market position to block effective competition. The non-governmental Hong Kong Consumer Council reports on anti-competitive behavior in the market. Its reports can spur government action; for example, the government acted in 1994 to remove the thirty year old interest rate cap for many time deposits after reviewing the Council's report on the interbank interest rate cartel. The Hong Kong government has tasked the Consumer Council with assessing whether Hong Kong needs a general antitrust law—that report is due by year-end 1995.

Certain exceptions, particularly in the services sectors, to Hong Kong's policy of open and fair competition are indicated below:

Telecommunications and Broadcasting: Hong Kong will soon have one of the most liberal telecommunications regimes in the world, with only international basic voice service subject to monopoly provision. (That monopoly is exercised by Hong Kong Telecom International (HKTI). Its franchise expires on September 30, 2006.) The United States has asked Hong Kong to lift the remaining restrictions in the context of the WTO basic telecom negotiations. Concerning broadcasting, foreign ownership of local broadcasting stations or cable operators may not exceed 49 percent. Moreover, the Hong Kong government stipulates that broadcasters use the HKTI satellite uplink rather than their own uplink.

Aviation services: Ground services at Hong Kong's present airport are provided only by two U.K.-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 (PAA), overseeing construction of CLK Airport, has committed to having multiple service providers. In franchises let so far, U.S. firms are members of winning consortia for line maintenance and cargo handling.

Civil Aviation: In October 1995 Hong Kong and the United States initialed a new Air Services Agreement that will govern U.S.-Hong Kong aviation relations once approved by the JLG.At the same time, the negotiators agreed on an expanded traffic rights package that takes effect immediately. U.S. carriers gained important new rights, including first-ever fifth freedoms for all-freight carriers. Nevertheless, the agreement does not permit codesharing and provides U.S. carriers with no new fifth freedom passenger rights. These factors will limit expansion of U.S. passenger carriers in the Hong Kong market. Hong Kong is not a party to the WTO plurilateral agreement on civil aircraft.

Certification Services: In 1995 the Hong Kong Works Branch announced a new policy by which during 1996 government contractors must be certified by a local Hong Kong company that they meet ISO–9000 quality standards, notwithstanding the fact that U.S. and other foreign certification companies have operated without complaint in the Hong Kong market for years.Various Hong Kong government officials are reviewing the Works Branch policy for consistency with Hong Kong's free trade philosophy.

Medical services: Before being licensed to practice, medical doctors trained outside of Hong Kong, the U.K., and Australia must pass a testing and retraining program that can stretch to over three years. In 1995, Hong Kong adopted legislation that should streamline the licensing procedures.However, there is concern that U.S. specialist training may be discriminated against by the non-governmental Hong Kong Academy of Medicine, which has been asked to help establish Hong Kong's first Specialist Register.

Legal services: Foreign law firms are barred from hiring local lawyers to advise clients on Hong Kong law, even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. In amendments passed in 1994, foreign law firms may now become "local law firms" and hire Hong Kong attorneys, but they must do so on an even ratio with foreign lawyers.

Banking services: Hong Kong has one of the most open and most favorable regulatory environments in Asia for foreign financial institutions. However, foreign banks established after 1978 are permitted to maintain only one branch (automated teller machines meet the definition of a branch).Since 1994, these banks have been allowed to open a back office at a separate site. Foreign banks may acquire local banks that have unlimited branching rights.

Infant Product Standards: At present, Hong Kong requires that certain baby products meet British standards. A review of other nations' standards is underway. The United States hopes that U.S. standards will also be recognized, clearing the way for the import of U.S.-made products such as baby strollers, cribs, and walkers.

Alcohol: The high Hong Kong tax rate remains an impediment to expanding U.S. sales. Taxes were reduced in 1994, however, and during 1995 the competitiveness of U.S. exporters improved.

Government Contracts: While Hong Kong's record for open and fair government procurement is generally without blemish, the Hong Kong government made the unfortunate decision to pull out of the new WTO plurilateral agreement on government procurement. This means there will be no official bid protest system in Hong Kong and raises concerns about Hong Kong's future policy intentions.

6. Export Subsidies Policies

The government neither protects nor directly subsidizes manufacturers, despite calls from some local legislators to do so. The Hong Kong government does not offer exporters preferential financing, special tax or duty exemptions on imported inputs, resource discounts, or discounted exchange rates. Several governmental and statutory entities, however, provide direct and indirect support to Hong Kong industry.

The Hong Kong government's Industry Department encourages inward investment with six "one-stop shopping" investment offices, two of which are in the United States (New York and San Francisco). In 1995 the Industry Department completed a study on the establishment of a subsidized science park for local technology companies.

The Hong Kong Trade Development Council (HKTDC), a quasi-governmental statutory organization, engages in export and import promotion activities and promotes Hong Kong as a hub for trade services. The HKTDC organizes trade fairs, publishes trade periodicals, hires trade lobbyists, and, on one occasion, subsidized the legal

costs of Hong Kong textile companies facing dumping allegations. Revenues are derived from taxes on imports (0.035 percent) and exports (0.05 percent), and operations (trade shows, magazines). An April 1995 Hong Kong government report called on the HKTDC to promote financial and trade services.

Another statutory body, the Hong Kong Industry Technology Center Corporation (HKITCC), promotes technological innovation and application of new technologies in Hong Kong industry.The government has allocated $26 million, granted land, and provided a loan of $24 million for the HKITCC. In 1995–96, the Industry Department will spend $27 million to promote selected technology projects. The main programs are incubation, technology transfer and research and design support services. Technology companies enjoy support services and discounted rent in the center. 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), another statutory body, is financed by annual government allocations and by fees earned from its services. The HKPC provides a variety of training programs, industrial and management consulting and technical support services. HKPC invites local companies to join consortia to share the design and development cost of new products. In late 1995 the HKPC announced a study to encourage automotive technology manufacturing in Hong Kong.

The Hong Kong Export Credit and Insurance Corporation (ECIC), another statutory body, provides insurance protection to exporters. The largest share of ECIC coverage (32 percent), is for exports to the United States. In 1995 ECIC reduced premiums by ten percent and raised coverage to 90 percent.

7. Protection of U.S. Intellectual Property

Hong Kong's intellectual property laws are among the best in the world, but a massive increase in pirated compact disc music, video and software production in China over the past two years has-swamped local enforcement efforts. Retailers of pirated software have operated so brazenly that the location of one pirate mall has even made it into guidebooks. One well known U.S. software company estimates that the pirating of three software programs accounts for $1.7 million in lost sales per month. The U.S. music industry estimates that twenty percent of the recorded music sold in Hong Kong is pirated. The United States has urged Hong Kong government at the most senior levels to crack down on hawkers and retailers and the criminal syndicates behind them. In 1995 Hong Kong has responded by beefing up IPR enforcement manpower in the Customs Department and by increasing the fines for copyright theft. However, to date the judiciary has not significantly increased sentences or fines on IPR infringers, and thus there is still no effective deterrent to IPR piracy. Moreover, there is evidence that Hong Kong middlemen are involved in the production in China of IPR infringing works and then collating and exporting the products through Hong Kong to the rest of the world.

With respect to the legislative arena and international conventions, Hong Kong's framework is world class. Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Berne International Copyright Convention and the Geneva and Paris Universal Copyright Conventions. For those conventions which only allow sovereign state participation, the PRC has recently stated that it would apply all of them to Hong Kong post-1997 (just as Britain does today). Some of Hong Kong's local laws covering trademarks, copyright for trade descriptions (including counterfeiting), industrial designs, maskworks, and patents will have to be "localized" for post-1997 application. Drafts of the laws indicate that, if anything, the process of localization will be used to strengthen existing laws.

8. Workers Rights

a. *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. Trade unions must be registered with the Hong Kong government, which must also approve affiliations with foreign unions. No application for such affiliation has so far been refused. Unions are defined as corporate bodies and enjoy immunity from civil suits arising from breaking of contingent contracts or interference with trade by work stoppages on the part of their members. The Hong Kong government does not discourage or impede union formation or discriminate against union members.Workers who allege anti-union discrimination have the right to have their cases heard by a government labor relations body.

b. *Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is guaranteed under local law. However, the latter is not widely 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 reconciliation

efforts prove unsuccessful, the matter may be referred to arbitration with the consent of the parties or a board of inquiry may be established to investigate and make suitable recommendations.

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

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

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

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.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		552
Total Manufacturing		1902
Food & Kindred Products	(1)	
Chemicals and Allied Products	99	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	435	
Electric & Electronic Equipment	492	
Transportation Equipment	(1)	
Other Manufacturing	652	
Wholesale Trade		4209
Banking		1094
Finance/Insurance/Real Estate		3013
Services		698
Other Industries		517
TOTAL ALL INDUSTRIES		11,986

[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]

	1993	1994	1995[4]
Income, Production and Employment:			
Real GDP (1993 prices)[1]	158,014	163,876	169,024
Real GDP Growth (percent)	6.5	7.3	7.2
GDP (at current prices)	158,014	174,701	196,795
GDP by Sector:			
Agriculture	28,252	30,472	33,452
Mining	15,092	14,528	13,908
Manufacturing	35,245	41,762	50,217
Electricity, Gas, Water	1,576	1,811	2,118
Construction	10,787	12,936	15,719
Retail Trade and Hotels	26,496	28,963	32,245
Transportation/Communication	11,139	12,466	14,211
Banking and Finance	13,439	15,536	18,270
Government	10,760	10,563	10,380
Other Services	5,224	5,659	6,242
Real per Capita GDP (US$)	835	853	865
Labor Force (millions)	81	86	90
Unemployment Rate (percent)	2.8	4.3	4.0
Underemployment Rate (percent)	39.6	39.8	40.0
Money and Prices (annual percentage growth):			
Money Supply	22.3	19.7	27.5
Interest Rate[2]	8.7	12.0	15.0
National Savings (percent GDP)	26.0	27.2	27.4
Consumer Price Index	10.2	9.6	9.2
Wholesale Price Index	3.6	5.4	12.1
Exchange Rate (Rp/US$)[3]	2,087	2,160	2,245
Balance of Payments and Trade:			
Total Exports	36,607	40,223	45,600
Exports to U.S.	5,439	6,523	7,000
Total Imports	28,376	32,322	42,000
Imports from U.S.	2,770	2,811	3,600
Aid from U.S.	94	90	87
Aid from All Sources	5,110	5,202	5,360
Foreign Debt (official/private)	83,500	89,100	94,000
Debt Service Ratio	29.2	30.2	29.7
Foreign Exchange Reserves	12,352	13,158	14,100
Trade Balance	8,231	7,901	3,600
Trade Balance with U.S.	2,669	3,712	3,400

[1] GDP based on 1993 revision of national accounts.
[2] Interbank fund rates.
[3] Period average.
[4] 1995 figures are embassy estimates based on available data.

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 GDP of $70 per person, half that of India and Bangladesh. In 1995, Indonesia's nominal per capita GDP should pass $1000, 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 averaged 8.3 percent per year from 1989 to 1994, while the government 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. However, in 1995, the economy began to show signs of overheating. Imports grew by more than 25 percent, and the current account deficit widened and could exceed $8 billion (about 4.5 percent of GDP) in 1995.

The government maintains a balanced budget in the sense that expenditures do not exceed domestic revenues plus foreign assistance receipts. The central bank controls the money supply through the purchase and sale of its own debt instruments, known as "Sertifikat Bank Indonesia."

Indonesia has made considerable progress in trade and investment deregulation. In mid-1994, the government lowered investment barriers and, in May 1995, unveiled a comprehensive tariff reduction package which covered roughly two-thirds of all traded goods and will reduce most tariffs to under five percent by 2003.

Indonesia's development is good news for American business. U.S. exports to the country have doubled since 1988, totaling $2.8 billion in 1994. The best prospects for U.S. exporters include equipment used in the construction of infrastructure, machinery, aviation equipment, agricultural products, and household consumer goods.

2. Exchange Rate Policies

The government has maintained the convertibility of the rupiah since the 1960's. 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 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 1995 was 2,260 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.In 1995, the government reduced the highest marginal income tax rate to 30 percent, for earnings in excess of $33,000. In 1985, a Value-Added Tax (VAT) was introduced. Import duties are another important source of government revenue. Companies can apply for an exemption from or a rebate of import duties and VAT paid on inputs used to produce exports. A few products remain subject to export taxes, usually with the goal of job creation. For example, in October 1989 export taxes on cut lumber were raised to prohibitive levels; and in May 1992 a previous export ban on logs was replaced by high export taxes. However, the government has pledged to phase out export taxes in its next deregulation package. 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 $94 billion, with about $60 billion owed by the state sector and $34 billion by the private sector. In 1995 Indonesia will pay approximately 30 percent of total export earnings in principal and interest payments on its foreign debt. The government is fully committed to meeting its debt service obligations and has no plans to seek a debt rescheduling.

A 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 the use of offshore funds by project and with establishing borrowing ceilings. In October 1991 the team announced ceilings on public sector foreign commercial borrowing and guidelines for private sector borrowing through FY 1995/96 ranging from $5.5 to $6.5 billion total per year.

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), certain agricultural tools and machinery, some types of heavy construction and excavation equipment, certain chemicals, alcoholic beverages, and some aluminum and iron and steel products. 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, and replaced the ban with high import duties and surcharges. The May 1995 deregulation package set a schedule for reducing those tariffs over a five-year period. The tariff on sedans, for example, will be reduced from 175 percent to 40 percent by the year 2003.

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

Foreign attorneys may serve as consultants and technical advisors. However, attorneys are admitted to the bar only if they have graduated from an Indonesian legal faculty or from an institution recognized by the government as equivalent.Foreign accountants may serve as consultants and technical advisors to local accounting firms. Air express companies are not permitted to own equity in firms providing courier services, although they may arrange with local firms to provide services in their name and place expatriate staff at 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. Distribution of U.S. videos began in 1995.

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. The Indonesian government is now working to open industrial distribution to foreign ventures.

Most foreign investment proposals must be approved by the Capital Investment Coordinating Board (BKPM). Investments in the oil and gas, mining, banking, securities and insurance industries are 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 foreigners 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 should be followed. Under a 1984 presidential instruction ("Inpres 8") on government-financed projects, the government seeks concessionary financing which meets the following criteria:3.5 percent interest and a 25 year repayment period which includes a seven years grace period. 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; however, 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 1995 four such enterprises had made public offerings.

6. Export Subsidies Policies

Indonesia joined the GATT subsidies code and eliminated export loan interest subsidies as of April 1, 1990; Indonesia will now abide by its new WTO commitments on subsidies. 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 (copyright) 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 patent, trademark and copyright laws will be submitted to Parliament in 1996. They are designed to bring Indonesia's laws into compliance with the Uruguay Round agreement.

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 difficult 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.*—vate 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 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 only unions recognized by the Department of Manpower are the thirteen industrial sector unions that comprise the all Indonesia Workers Union Federation (Serikat Pekerja Seluruh Indonesia, or SPSI). SPSI claims a membership of about two million, or about 2.5 percent of the total work force. However, if agricultural workers are excluded, the percentage of union members rises to about five percent.

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

All organized workers, with the exception of civil servants, have the right to strike. In practice, state enterprise employees and teachers rarely exercise this

right.Before a strike can occur in the private sector, the law requires intensive mediation by the Department of Manpower and prior notice of the intent to strike. However, no approval is required, and wildcat strikes are not uncommon.

b. *The Right to Organize and Bargain Collectively.*—llective bargaining is provided for by law, but only the recognized trade unions that make up SPSI and the new "plant level unions" may legally engage in it. Once notified that 25 employees have joined a registered union, an employer is obligated to bargain with them. Before a company can register or renew its company regulations it must demonstrate that it consulted with the union or, in its absence, a committee consisting of employer and employee representatives.

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

c. *Prohibition of Forced or Compulsory Labor.*—rced labor is strictly forbidden. Indonesia has ratified ILO Convention No. 29 concerning forced labor.

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

e. *Acceptable Conditions of Work.*—e law establishes seven-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. Since 1995, regional minimum wage rates are adjusted nationwide on April 1 of each year.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 many 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. The application of legislation and practices 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 activities. All employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them.Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesian labor laws but, with some exceptions, they do not have the right to strike, join labor organizations, or negotiate collective agreements. Some companies operating under other contractual arrangements, such as contracts of work and, in the case of the mining sector, cooperative coal contracts, do have unions and collective bargaining agreements.

Regulations pertaining to child labor and child welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered major problem areas in the petroleum and fabricated metals sectors.

Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety, etc. applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount
Petroleum	4,341
Total Manufacturing	181

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Food & Kindred Products	(1)	
Chemicals and Allied Products	83	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		58
Banking		111
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		259
TOTAL ALL INDUSTRIES		5,015

[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] [1]

	1993	1994	1995 [2]
Income, Production and Employment:			
Real GDP (1990 Prices)	4,066.6	4,447.5	[1] 4,844.1
Real GDP Growth (percent)	−0.2	0.5	[2] 0.5
Nominal GDP	4,274.6	4,688.6	[1] 5,086.2
Real GDP by Sector:			
Agriculture & Fisheries	84.2	N/A	N/A
Mining	9.3	N/A	N/A
Manufacturing	1,146.9	N/A	N/A
Construction	334.0	N/A	N/A
Electricity, Gas	129.4	N/A	N/A
Wholesale, Retail	531.2	N/A	N/A
Finance and Insurance	204.2	N/A	N/A
Real Estate	382.8	N/A	N/A
Transportation	241.3	N/A	N/A
Services	527.4	N/A	N/A
Per Capita Income (US$)	34,279	37,521	[2] 40,592
Labor Force (millions)	66.2	66.5	[3] 66.6
Unemployment Rate (percent)	2.5	2.9	3.2
Money and Prices (annual percentage growth):			
Money Supply:			
(M2+CD annual average percent)	1.1	- 2.1	3.1
Commercial Interest Rates:			
(10-yr govt bonds/year-end)	3.02	4.59	[4] 2.67
Savings Rate (percent) [5]	32.3	31.0	N/A
Investment Rate (percent) [6]	29.9	28.9	N/A
Consumer Price Index (1990 base)	106.4	107.1	[3] 107.0
Wholesale Price Index (1985 base)	95.0	93.1	[7] 92.1
Exchange Rate (yen/US$)	111.18	102.23	[7] 94.06
Balance of Trade:			
Total Exports (FOB)	360.9	395.6	443.0

Key Economic Indicators—Continued

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

	1993	1994	1995[2]
Exports to U.S. (FOB)	105.4	117.6	120.9
Total Imports (CIF)	240.7	274.7	335.9
Imports from U.S. (CIF)	55.2	62.7	75.3
Trade Balance with U.S.	50.2	54.9	45.6
Balance of Payments:			
Current Account	131.4	129.1	110.4
Trade Account	141.5	145.9	134.8
Services & Transfers	−10.1	−16.8	−24.4
Long-term Capital	−78.3	−82.0	−84.5
Basic Balance	53.1	47.1	25.9
Short-term Capital	−14.4	−8.9	74.9
Gold and FOREX Reserves (yr-end)	99.7	127.0	184.5

[1] Jan-September cumulative.
[2] Full year estimate.
[3] Jan-August, average S.A. Labor data is not seasonally adjusted.
[4] End of September.
[5] Public and private savings as a percent of GDP.
[6] (Public and private domestic fixed capital formation and inventory investment)/nominal GDP.
[7] Period average.

1. General Policy Framework

In 1994, the Japanese economy, the world's second largest at more than $4 trillion, posted its third consecutive year of below one percent GDP growth, 0.5 percent for the year. The economy remains weak, but boosted by expansionary fiscal monetary policies signs of recovery are growing stronger.Real GDP growth is estimated at 0.5 percent for 1995 and projected to rise to 2.0 percent in 1996.

The current economic slowdown, which began in mid-1991, has proven to be one of the longest in Japan's postwar history. (Until 1992–3, Japan had never recorded two consecutive years of less than three 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 employment and prices will remain soft, even if the economy posts a weak recovery.

Japan is our second largest trading partner. In 1994 the United States exported $62.7 billion to Japan and imported $117.6 billion from Japan. Japan's 1995 external accounts posted global trade and current account surpluses of $135 billion (BOP basis) and $110 billion, respectively. In 1995, Japan's merchandise trade surplus—measured in dollar terms—fell for the first time in five years. The overall surplus fell 11.4 percent to $107.1 billion; the trade surplus with the United States fell 17 percent to $45.6 billion. Despite sluggish domestic demand, the relatively high yen led in 1995 to a 22.3 percent increase in cost-competitive imports.Exports also grew, for the thirteenth consecutive year, by 12 percent, especially to other Asian markets. Many economists expect Japan's trade and current account surplus to diminish further over time.

In recent years, the Japanese government has used public spending to counter the overall negative contribution of private demand to domestic demand growth. Five fiscal stimulus packages between August 1992 and September 1995 have injected a substantial amount of public works spending into the economy. Most recently, the Japanese government announced a yen 14.2 trillion stimulus package in September 1995.

In order to ease credit conditions, the Bank of Japan lowered the official discount rate nine times between mid-1991 and September 1995, from 6.0 percent/year to 0.5 percent.Nominal interest rates set new record lows during 1995, yet demand for funds, particularly for investment purposes, remained relatively weak.

2. Exchange Rate Policies

Japan operates a floating exchange rate regime with periodic intervention. In recent years, intervention has been aimed at preventing appreciation of the yen. On February 13, 1995, the United States and Japan signed a Financial Services Agreement. Under this agreement, measures have been taken resulting in significant relaxation of foreign exchange controls, including raising limits on the foreign holdings

of Japanese pension funds and other measures designed to encourage overseas investment by Japanese firms. In early 1996, the Government of Japan announced an agreement to work with the monetary authorities of Hong Kong and Singapore to maintain currency stability. In the last five years, the yen has appreciated 15 percent on a real trade-weighted basis.

3. Structural Policies

Japan's economy is undergoing serious structural pressures, due primarily to technology-driven global competition. Regulatory reforms have proceeded very slowly, and the economy remains heavily managed by an intricate web of national and local government regulations that have the effect of hindering market access for foreign firms. Japan's bureaucracy holds broad regulatory and discretionary powers that allow it to intervene directly in the economy. In many cases, formal Japanese laws and regulations are written only in general terms, with the details supplied by often-unpublished "administrative guidance." The resulting broad power and discretion of government ministries can make it difficult for foreign firms to learn what approvals and practices may be required to conduct business, and difficult to obtain those approvals. Some official regulations also tend to reinforce private Japanese business practices that restrict competition, hinder new domestic and foreign entries into the market, and raise cost of goods and services.Bureaucratic obstacles have delayed structural adjustment and impede competition in key sectors, such as retail distribution, information and telecommunications, transportation, land and housing, labor, and legal services.Heavy-handed bureaucracy combined with overly-exclusive private business practices continue to trouble both foreign firms and domestic reformers in Japan.

On July 10, 1993 President Clinton and then-Prime Minister Miyazawa announced the U.S.-Japan Framework for a New Economic Partnership. The Framework Agreement replaced the multiplicity of fora for pursuing bilateral economic objectives that had grown over the years. It provides a structure for addressing macroeconomic, structural and sectoral issues as well as cooperation in addressing global issues through the "Common Agenda." The Framework divides the bilateral trade agenda into five discrete "baskets" for discussion: government procurement, regulatory reform and competitiveness, economic harmonization, implementation of existing agreements and other major sectors (autos and auto parts). Since January 1993 the U.S. and Japan have reached twenty trade-related agreements, twelve of which were reached under the Framework. The U.S. and Japan have developed an active program of cooperation on issues of global concern—including the environment, health, population.

Structural issues are addressed in the Framework baskets dealing with implementation, regulatory reform and competitiveness, and economic harmonization. These discussions have included issues such as enhanced competition policy, foreign direct investment, buyer/supplier relationships, reform of the regulatory process and more transparent administrative procedures, as well as continued efforts to reform the distribution system (including import procedures). In 1994 and 1995 the U.S. and Japan reached important Framework agreements on investment, financial services, and intellectual property rights (see section 7).In addition, many of the agreements reached on specific sectors, such as autos and auto parts and glass, address specific structural problems adversely affecting competitive U.S. and other foreign firms in the Japanese market.

Since the popularization of economic reform under the administration led by Prime Minister Hosokawa in 1993, the government has made deregulation a key theme in its economic agenda. The government issued its five-year (later accelerated to three years) Deregulation Action Plan in March 1995, and various ministries, agencies, and advisory committees continue to study and formulate measures to promote economic reforms. The government's Administrative Reform Council (ARC) is scheduled to submit a report to the Prime Minister's Office in late March, 1996, that will prioritize the implementation of key deregulation items raised in the March 1995 Action Plan and in the ARC working level committee's July 1995 interim deregulation report. In recent years, the U.S. has consistently urged Japan to undertake bold and wide-ranging measures to deregulate its economy. However, the U.S. has been disappointed to date by the pace, depth and range of Japan's current deregulation plans. Under the Framework Agreement's Working Group on Deregulation and Competition Policy, the U.S. has submitted two packages of deregulation and competition policy proposals and suggestions to the Government of Japan. Working group talks and extensive discussion of deregulation issues are continuing.

The Japanese government, which formerly directed considerable public and private resources to priority areas of the economy, is increasingly subject to domestic criticism for using public funds to promote leading sectors and ease declining ones.

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.

The Japanese government extended JFY 1994 income tax cuts totalling yen 5.5 trillion ($55 billion) through JFY 1995 (JFY runs from April through March). The "permanent" portion of the income tax cut (yen 3.5 trillion/$35 billion) will continue thereafter. The "temporary" portion (yen 2 trillion/$20 billion) of the tax cut is currently scheduled to be dropped after 1996. In April 1997, the current consumption tax (a value-added tax) is scheduled to be raised from the current rate of 3 percent to 5 percent.

4. Debt Management Policies

Japan is a major source of foreign direct investment, especially into other Asian economies. Japan is also the world's largest net creditor, in part due to the country's relatively high savings rate. The Government of Japan is actively supporting increased overseas investment, though levels have fallen during the recession. Japan is also the greatest source of official development assistance to developing countries and participates actively in Paris Club debt rescheduling for low-income nations.

5. Significant Barriers to U.S. Exports

The Japanese government has removed most formal, direct barriers to imports of goods and services. Japan's average industrial tariff rate (about two percent) is one of the lowest in the world, and Japan has made further tariff reduction offers in the Uruguay Round Market Access Negotiations. The Uruguay Round Agreement will reduce but not eliminate trade barriers in a number of areas: agriculture (where the United States and other trading partners seek, among other things, an end to Japan's ban on rice imports), manufactured goods (where the U.S. has proposed mutual elimination of tariffs for major industrial sectors), and services.

One of the primary goals of the U.S.-Japan Economic Framework is to deal with structural and sectoral issues in order to increase substantially access and sales of competitive foreign goods and services through market-opening and macroeconomic measures. Since July 1993, U.S. and Japanese negotiators have reached twelve framework agreements including in the areas of autos and auto parts, investment, financial services, flat glass, government procurement of medical technology and telecommunications products and services including Nippon Telegraph and Telephone, intellectual property rights and insurance. Earlier trade agreements cover other areas including supercomputers, commercial satellites, semiconductors, wood products, paper, and government computer procurement.

Import Licenses: 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).

Service Barriers: Removing impediments to trade in services has become a prominent aspect of the U.S.-Japan trade agenda. The U.S.-Japan Financial Services Agreement of February 13, 1995 is already expanding competitive U.S. financial services companies' access to many profitable areas in the Japanese market. On October 11, 1994 the U.S. and Japan signed an insurance agreement under which the Government of Japan committed, among other things, to enhance the transparency of its regulatory system, provide important procedural protection, introduce specific liberalization measures, and strengthen its antitrust/competition policy.The U.S. and Japan have accords that partially liberalize access to the legal services market (1987), promote free and open procurement of construction services and goods (1988, 1991 and 1994), and ease restrictions on telecommunications services (International Value-Added Networks I, 1988; Cellular phones, 1989 and 1994; International Value-Added Networks II, 1990).

Legal services remain an area of contention, despite partial liberalization of legal services in 1987. Japan continues to maintain severe restrictions on legal services that foreign firms can provide, including a prohibition on the employment of or a partnership with Japanese lawyers. A Japanese government study commission on legal services, established in September 1992, has called for some changes in the current system. However, the commission addressed the issue of partnership in only a limited way and did not recommend removing the current ban on foreign law firms employing Japanese lawyers. These difficulties continue to be discussed under the Framework's Deregulation and Competition Policy Working Group talks.

Standards, Testing, Labelling and Certification: The Japanese government has simplified, harmonized and, in some cases, eliminated restrictive standards in order to follow international practices in many areas. The U.S. Government continues to bring to the attention of the Government of Japan standards issues raised by U.S.

firms. The Framework talks' Deregulation and Competition Policy Working Group is discussing a number of standards and certification issues.The U.S.-Japan auto and auto parts agreement also calls for resolution of specific auto-related standards and certification issues by May 1996. However, overall progress remains slow. 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.

Investment Barriers: 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 restricts foreign investment in certain sectors including: aircraft, space development, atomic energy, oil and gas production and distribution, mining, 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, foreign direct investment in Japan is much lower than that in its major G–7 trading partners. There are a number of factors underlying this fact, including the legacy of many years of active Japanese government discouragement of foreign investment. The major problem, however, is the high cost of doing business in Japan that makes the rate of return on investments far lower than other alternatives. The Japanese government has taken initial steps to provide incentives to foreign investors and has pledged further action as part of the U.S.-Japan Investment Accord signed in July 1995.

Acquisition of existing Japanese companies is difficult, due in part to crossholding of shares among allied companies, leading to a low percentage of publicly traded common stock.This practice complicates efforts of foreign firms to acquire existing distribution/service networks through mergers and acquisitions. Close and exclusive private relations between Japanese buyers and suppliers also continue to impede foreign entry, as do extremely high business costs, related in part to overregulated land and labor markets, and other regulatory burdens.

Government Procurement Practices: Japan is a signatory to the World Trade Organization (WTO) Agreement on Government Procurement. In November 1991, Japan agreed to implement unilaterally procedural improvements to increase opportunities for U.S. suppliers. The United States continues to monitor Japanese government procurement practices to assure that foreign firms are given an opportunity to compete fairly and openly. Talks under the Framework produced specific United States-Japan agreements covering government procurement in medical technology and telecommunications, including Nippon Telegraph and Telephone; these were signed November 1994.Bilateral negotiations also addressed problems in the government procurement market for construction services. The negotiations resulted in the 1994 Action Plan for Reform of the Bidding and Contracting Procedures for Public Works (Action Plan). In the Action Plan, Japan set forth open and competitive procurement procedures to be used when making construction-related procurements valued at or above the WTO government procurement thresholds.

Customs Procedures: The most serious shortcoming of Japanese customs procedures is the lack of a fully integrated customs system which is used by other agencies involved in import processing. Japanese customs authorities do not have comprehensive authorization to perform all customs inspections and to issue necessary customs documents, but must rely on other agencies, principally the Ministries of Agriculture (MAFF) and Health and Welfare (MHW), to complete required inspections. Coordination among agencies is often poor, leading to long delays in releasing items from customs. In addition, the Japanese automated customs system needs to be updated and improved since it does not provide such features as electronic prefiling and computerized parallel processing, needlessly exacerbating customs delays. Finally, customs infrastructure at Japan's airports is sometimes inadequate or extremely expensive to use, thereby making on-site customs processing more difficult.

However, the government is making some progress in addressing these problems. For example, MHW and MAFF have announced plans to install computers in or after 1997 for rapid parallel processing of agricultural imports, and the government

plans to institute in FY96 an "immediate release system" for certain categories of air cargo, eliminating the need for this air cargo to pass through customs.Additionally, the government has begun an expansion of cargo terminal capacity at Narita to facilitate more on-site customs processing.

6. Export Subsidies Policies

Japan conforms 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 $13.24 billion that Japan allotted for official development assistance in 1994, approximately 32.2 percent was earmarked for loan aid. In this area, Japan has virtually eliminated Japan-tied-aid credits and now extends about 98 percent of its 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 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 (copyright), Paris (industiral property) 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. Toward 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 WTO.

Average patent pendency in Japan is one of the longest among developed countries. 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.

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 filings of applications for similar inventions or processes. Japan's extremely narrow scope of patent grants compounds this problem. 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 an effective doctrine of equivalents and civil procedure lacks a discovery procedure to seek evidence of infringement.

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. Under legislation introduced by the Japanese Patent Office, the Japanese parliament revised the patent system in April 1995. The IPR agreement became fully operational on 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 revised, 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. In addition, Japan will no longer issue compulsory, dependent patents.

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. Japan has also provided protection for sound recordings produced after 1971. However, under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which entered into force in developed countries on January 1, 1996, Japan is obligated to extend copyright protection to U.S. sound recordings produced since 1946. The U.S. government continues to urge the Government of Japan to provide such protection.Discussions by an advisory panel to the Japanese government of a proposal to relax legal restrictions against reverse engineering of software and decompilation of computer programs took place into 1994, but the panel ultimately issued no recommendations. 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 and Bargain Collectively.*—This right is assured by the Japanese constitution. Approximately 24 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 for Employment of Children.*—Under the Revised Labor Standards Law of 1987, minors under 15 years of age may not be employed as workers, and those under the age of 18 may not be employed in dangerous or harmful work. Child labor laws are rigorously enforced by the Labor Inspection Division of the Ministry of Labor.

e. *Acceptable Conditions of Work.*—Minimum wages are set regionally, not nationally. These wage rates are sufficient to provide workers and their families with a decent living.The Ministry of Labor effectively administers various laws and regulations governing occupational health and safety, principal among which is the Industrial Safety and Health law of 1972.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		6,124
Total Manufacturing		15,844
Food & Kindred Products	1,121	
Chemicals and Allied Products	3,634	
Metals, Primary & Fabricated	298	
Machinery, except Electrical	4,425	
Electric & Electronic Equipment	1,665	
Transportation Equipment	1,842	
Other Manufacturing	2,860	
Wholesale Trade		6,844
Banking		420
Finance/Insurance/Real Estate		6,400

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Services	496
Other Industries	900
TOTAL ALL INDUSTRIES	37,027

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

SOUTH KOREA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP Growth (percent)	5.5	8.4	9.1
GDP (at current prices)[2]	332,852	380,304	457,312
GDP by Sector:			
Agriculture/Forestry/Fisheries	23,464	26,807	32,234
Electricity/Gas/Water	7,718	8,815	10,522
Manufacturing	89,906	102,232	123,993
Construction	46,108	51,154	57,371
Financial Services	56,668	64,985	83,362
Government/Health/Education	26,454	30,189	35,384
Other	82,534	96,122	114,446
Net Exports of Goods and Services	−107	−5,134	−8,000
Per Capita GDP (US$)	7,501	8,483	10,196
Labor Force (000s)	19,803	20,326	21,112
Unemployment Rate (percent)	2.8	2.4	2.0
Money and Prices (annual percentage change):			
Money Supply (M2)	18.6	15.6	15.7
Yield on Corp. Bonds (percent)[3]	12.6	12.9	11.5
Personal Saving Rate (percent)[3]	26.7	25.9	25.0
Retail Inflation	4.8	6.2	4.7
Wholesale Inflation	1.5	2.8	5.0
Consumer Price Index	121.7	129.3	135.4
Average Exchange Rate (US$/1,000 won)	1.246	1.247	1.298
Balance of Payments and Trade:			
Total Exports (FOB)[4]	82,236	96,013	124,200
Exports to U.S.[4,5]	18,138	20,553	23,000
Total Imports (CIF)[4]	83,800	102,348	129,000
Imports from U.S.[4,5]	17,928	21,578	30,000
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt[6]	43,870	57,300	70,000
Debt Service Payments (paid)	5,500	6,500	8,500
Gold and Foreign Exchange:			
Reserves (cost basis)	20,262	25,673	34,000
Trade Balance[4]	−1,564	−6,335	−4,800
Balance with U.S.[4,5]	210	−1,025	−7,000

[1] 1995 figures are all estimates based on available data as of October 1995.
[2] GDP at factor cost.
[3] Figures are for average annual interest rates, not changes in them.
[4] Merchandise trade; Korean government data.
[5] U.S. Government data are compiled differently.
[6] Includes non-guaranteed private debt.

1. General Policy Framework

The 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. In the 1990s, the Kim Young-Sam administration launched programs to deregulate and modernize the economy, but many bureaucrats still believe the government has an important role in preventing macroeconomic and social instability caused by "excessive competition."

The Korean economy has rebounded strongly since 1992, when growth fell to a recent low of 5.1 percent. Growth has been accelerating since mid-1993, and real GDP in the first half of 1995 rose 9.6 percent over year-earlier levels. Output of the manufacturing sector may exceed ten percent in 1995, and the capacity utilization rate in manufacturing exceeds 80 percent. The expansion is investment-led, as the large conglomerates ("chaebols") implement ambitious plans to modernize and expand facilities. Exports, aided by the strength of the yen, remain brisk in 1995, although imports are even more buoyant. Imports from the United States continue to grow at double-digit rates, with an increase of over 17 percent in the first half of 1995 compared to the year-earlier period. Household spending on consumption, which accounts for over half of total GDP, is rising along with optimism about the economy. Real GDP growth, which averaged 8.4 percent in 1994, will likely exceed nine percent in 1995.

Despite faster growth, the economy displays few signs of overheating. Consumer prices rose only 4.7 percent in the first nine months of 1995. Wage demands have moderated compared to 1994, although wage costs may rise in the second half of the year, since many wage packages negotiated in 1994 call for the payment of bonuses at end-1995. To forestall any major increases in the rate of inflation, the Bank of Korea intends to hold money supply growth toward the bottom of its 14 to 17 percent target range in the second half of 1995.

The Korean economy enjoys some positive features that compare favorably with many OECD economies. 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 Korea made inflation control a priority in the 1980s, and it now roughly equals the gross investment ratio of about 30 percent of GNP.

At the microeconomic level, however, government intervention is extensive and costly in terms of economic efficiency. The prices of many products are controlled de facto. Korea continues to require commercial banks to give priority to smaller businesses in allocating credit, and the government must approve all bond and stock issuances. Most overseas capital transactions are tightly controlled.Investment and product safety regulations inhibit domestic competition and often discriminate against foreigners. Korean government task forces have been commissioned to rid the economy of obstructive and redundant regulations, and plans were announced in 1995 to liberalize aspects of the shipping, trucking, petroleum and telecommunications industries, but thus far progress has been marginal.

2. Exchange Rate Policies

The won appreciated against the dollar by about three percent in the 12 months ending August 1995. On the other hand, a sharp fall in the external value of the won against the yen in 1994 gave Korean heavy industries price advantages over their Japanese rivals. Korean economic forecasts assume the recent appreciation of the won against the yen in 1995 will continue into 1996, with corresponding lower export volumes and growth levels.

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. The Treasury noted, however, 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

Korea's economy is based on private ownership of the means of production and distribution, although heavy governmental intervention (via policy loans and discretionary enforcement of regulatory policies) has historically been used to steer the direction of economic development. The government also uses its tight grip on the

financial sector to apply this control. One side effect has been the high degree of concentration of capital and industrial output in a small number of chaebols. The most recent Korean government estimates indicate that the 30 largest chaebols account for about one-third of the total capital of the domestic financial sector and about 35 percent of all manufacturing.

Historically, Korea's import regime allowed easy entry of raw materials and capital equipment needed by competitive export industries but restricted consumer imports. Since the mid-1980s, however, the government has eliminated most explicit import prohibitions. Instead, a variety of nontariff barriers have emerged as obstacles to imports, including onerous and non-scientific food safety and plant quarantine requirements.

In 1993, the U.S. and Korean Presidents launched the Dialogue for Economic Cooperation (DEC), a year-long effort to address systemic issues that impact trade and investment flows between the two countries. Building on the results of the prior Presidential Economic Initiative (PEI), the DEC sought to deepen economic cooperation through a variety of means, including the Korean government's programs to deregulate the economy and improve the climate for foreign investment. 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. In the June 1994 Economic Sub-Cabinet meeting, the U.S. side assessed the DEC as moderately successful; subsequently, both sides have sought to implement its results.

4. Debt Management Policies

Foreign debt management is not a critical issue for Korea. Korea's gross foreign debt will total an estimated $70 billion at end-1995, while debt service as a share of the total export of goods and services is around nine percent.Net foreign debt, taking into account Korea's numerous and growing overseas assets, is approximately $17 billion.

In 1995 the Republic of Korea graduated from its status as a World Bank loan recipient.

5. Significant Barriers to U.S. Exports

Although the most explicit barriers to imports have fallen over time and overall trade is steadily growing, U.S. exporters often discover new, more subtle barriers that tend to frustrate the widespread liberalization promised in the major trade initiatives of the late 1980s. Tariffs have fallen to an average rate of 7.9 percent; continued decline in the average is doubtful in the near term, given the contrary impact of "tariffication" of some agricultural items following the Uruguay Round (UR) which were formerly subject to small quotas. The National Assembly ratified the UR agreements at the end of 1994; implementing legislation will go into force throughout 1995 and 1996.

The typical trade barriers U.S. exporters experience today are rooted in the maze of regulations which greatly complicate the process of licensing, inspections, type approval, marking requirements and other standards affecting trade. Many of these technical barriers to trade are inconsistent with international norms. For that reason, the United States has challenged some Korean government policies in the agricultural sector through the World Trade Organization (WTO). Trade restrictions affecting U.S. exports of automobiles and telecommunications equipment have been the subject of bilateral negotiations.

One important barrier to even greater growth in U.S. exports to Korea is the restriction on importing on credit.Use of limited deferred payment terms (extended as of December 1, 1995, to a maximum of 180 days) is restricted to items with a tariff of ten percent or less, which are generally raw materials. Use of deferred payment terms for other goods requires a license from foreign exchange banks or permission from the Governor of the Bank of Korea, which 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 in the case of prohibited or regulated goods (a classification that includes around 150, mostly agricultural products). Under Korea's agreement to phase out its GATT balance of payments (BOP) restrictions, the government is committed to eliminate most of these 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; yet, some of the items will not be liberalized until the year 2000.

Under the Uruguay Round, Korea will gradually expand its minimum import quota for beef to 225,000 MT by the year 2000, while at the same time expanding

the proportion of the quota imported through the simultaneous buy/sell system and reducing the mark-up. In January 2001, Korea will remove all nontariff barriers to beef imports, including state trading.

Standards, licensing, registration and certification requirements all can be used effectively to limit U.S. exporters' access to the Korean market. Unreasonably tough and arbitrarily enforced standards and labeling requirements have adversely affected U.S. exports of a wide variety of consumer products. Registration requirements for products, such as chemicals, processed food and cosmetics, hamper free entry into the market as well and can require U.S. firms to release detailed proprietary information on the composition of their products to their local competitors in the process.

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. The government introduced a full-fledged Administrative Procedures Act in 1995, addressing one of the principal topics of discussion in the DEC.

The Korean government has also 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. Under the present timetable for reform, some critical measures (such as full won convertibility and freedom of capital movements) are not scheduled to be achieved until 1997. Government restrictions also continue to deny national treatment to foreign banks and securities firms in a number of areas. For example, foreign banks face significant impediments in the form of restricted access to local currency funding, difficulties in obtaining approval for new financial products and requirements to capitalize each sub-branch.Foreign securities firms face restrictions on their ability to lead manage securities issues in overseas markets 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, however, U.S. investors 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 and other regulatory restrictions can limit foreign direct investment in sectors that are nominally open to foreigners. Foreign firms face additional restrictions in investment in most professional services, as well as in their downstream services. 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 and somehow unpatriotic. The government in the past encouraged regular "frugality campaigns" against "overconsumption" that hit consumer imports particularly hard. The accumulated heritage of these essentially anti-import campaigns is hard to erase.

The streamlining of Korea's complex import clearance procedures is an important U.S. policy objective. Korea is now implementing 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 WTO Government Procurement Code. Its membership will be effective January 1, 1997.

6. Export Subsidies Policies

Since the mid-1980s, Korea has been dismantling the once prevalent system of subsidies which helped foment the dramatic industrialization of the 1960–70s. First, a new law governing tax exemptions was passed in 1983. Then, the balance of the subsidy tools (grants and directed and/or subsidized financing) were redirected in 1986 towards functional objectives, rather than towards specific industries or sectors.

In the face of the ongoing financial liberalization, the real benefit of the subsidized lines of credit is declining, and the relative size of direct grants is small and declining with regard to both the government budget and the massive amount spent privately on investment. While the targeting of finance in Korea's high growth, cash-starved environment remains an important tool, tax exemptions are likely the most significant means by which the government can promote its objectives. Exempted taxes were estimated to equal fully ten percent of total government expenditures in 1994.

Many government programs directly support Korea's export industries, including: customs duty rebates for raw material imports used in the production of exports; short-term export loans for small/medium-sized enterprises (SMEs); rebates on the value-added tax (VAT); 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/medium-sized exporters. Korea also maintains a special loan program for SMEs to facilitate exports to Japan in an effort to curb its enormous bilateral trade deficit with that country.

Korea intends to implement the new WTO Agreement on Subsidies and Countervailing Measures as a "developed country," suggesting that any remaining "red light" subsidies will be eliminated or modified very soon. The government has submitted draft legislation to the Assembly to bring the tax incentives provided to the domestic shipbuilding industry into compliance with OECD norms.

7. Protection of U.S. Intellectual Property

Beginning 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" has been resumed annually. It included the establishment of an information network on cases and regularly scheduled 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 increased the penalties for copyright infringement and amended the customs law to strengthen IPR enforcement for imports and exports of copyright and trademark goods.

As a result of this concentrated push, the U.S. government, in its recent Special 301 reviews, elected not to upgrade Korea to "priority foreign country" status, but kept it on the "priority watch list." The American Chamber of Commerce in Korea (AMCHAM) supported the U.S. government's decisions. In the summer of 1995, AMCHAM's Board of Governors voted to support downgrading Korea to the "watch list" in anticipation of the passage of the laws necessary to bring Korea into compliance with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

Full compliance with the WTO's TRIPS Agreement would require relatively few changes in Korea's body of laws and regulations. All of the necessary draft laws have been submitted to the National Assembly, and the government hoped to secure their passage by January 1, 1996. Regulations implementing these new laws and other changes will be completed by July 1, 1996. Korea is also committed to becoming party to additional international conventions governing IPR issues, such as the Berne Convention for the Protection of Literary and Artistic Works.

Patents: 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 recent enforcement crackdowns, particularly since Korean law allows prosecutors or police to investigate trademark infringement cases without the filing of a formal complaint.Problems remain with the Korean definition of "world famous marks," wherein enforcement is inconsistent. The Korea Industrial Property Office (KIPO) has developed a catalogue of some 30,000 trademarks from all over the world to aid its examiners. The U.S. Government continues to urge KIPO to refer to a CD-ROM listing of trademarks provided by the U.S. Commerce Department.

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. Until the advent of the special enforcement campaigns, 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.

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 and 1995, 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 are working 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 that allow the alleged violator to remove evidence from the premises before the authorities arrive. The Korean government currently has no plans to change this requirement.

New technologies: In November 1992, the National Assembly passed legislation to extend IPR protection to semiconductor mask works. 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 has changed its implementing regulations 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 certain provisions of this law with concern because 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 and the Geneva Phonograms Convention. It is also a member of the World Intellectual Property Organization. In November 1992, the National Assembly ratified the United States-Korea Patent Secrecy Agreement.

8. Worker Rights

a. *Right of Association.*— The Korean Constitution gives all workers (with the exception of most public service employees and teachers) the right to free association. Despite these limits, there are blue collar public sector unions in railways, the postal system, telecommunications 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 neither part of nor affiliated with the country's sole legally recognized labor confederation, the Federation of Korean Trade Unions (FKTU).In 1993, however, the Labor Ministry began to recognize independent professional federations representing such groups as 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 can exist without government interference, except when the authorities consider their involvement in labor disputes to be 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. Yet, trade unionists have circumvented the ban by temporarily resigning their union posts and running for office on a political party's ticket 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 transpor-

tation, utilities, public health, banking, broadcasting and communications must submit to government-ordered arbitration in lieu of striking; in fact, strikes can occur even in these sensitive sectors, as we have seen in some recent cases involving U.S.-owned banks. 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, while worker rights significantly improved.

Korea has been suspended from U.S. Overseas Private Investment Corporation (OPIC) insurance programs since July 1991 due to the limits placed on such worker rights as the freedom of association.

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 undertake 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 semi-autonomous agency of the Ministry of Labor which 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 take part-time jobs, such as selling newspapers. In order to gain employment, children under 18 must have the 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. In practice, most firms pay wages well above the minimum levels, due to the tight labor markets. The Labor Standards and Industrial Safety and Health Laws provide for a maximum 56-hour work week and a 24-hour rest period each week. Amendments to the Labor Standards Law passed in March 1989 brought the maximum regular work week down to 44 hours, but such rules are sometimes ignored, especially by small firms.

Even though the government sets health and safety standards, 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 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 those at corresponding Korean plants.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		88
Total Manufacturing		1391
Food & Kindred Products	261	
Chemicals and Allied Products	291	
Metals, Primary & Fabricated	66	
Machinery, except Electrical	40	
Electric & Electronic Equipment	195	
Transportation Equipment	78	
Other Manufacturing	460	
Wholesale Trade		422
Banking		1426
Finance/Insurance/Real Estate		204
Services		29
Other Industries		51
TOTAL ALL INDUSTRIES		3,612

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

MALAYSIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1978 prices)	39,150	41,952	[2]48,196
Real GDP Growth (percent)	8.3	9.2	[3]9.6
GDP (at current prices)	62,949	70,815	85,462
By Sector (1978 prices):			
Agriculture	6,305	6,125	6,688
Manufacturing	11,799	13,276	15,958
Mining and Petroleum	3,128	3,145	3,540
Utilities	847	944	1,128
Construction	1,565	1,751	2,115
Wholesale and Retail Trade	4,836	5,125	5,854
Financial Services	4,144	4,471	5,154
Government Services	3,919	4,207	4,585
Other Services	3,528	3,845	4,489
Net Exports of Goods & Services	−921	−937	−1,316
Real Per Capita GDP ('78 base - US$)	2,061	2,135	2,397
Labor Force (000s)	7,627	7,846	8,060
Unemployment Rate (percent)	3.0	2.9	2.8
Money and Prices (Annual Percentage Growth):			
Money Supply (M2)	22.1	14.7	[4]18.5
Base Interest rate (percent)	8.2	6.8	7.7
Gross Nat Savings/GNP (percent)	32.7	34.4	33.9
Inflation (CPI)	3.6	3.7	3.5
Exchange Rate (avg RM/US$)	2.57	2.62	2.5
Balance of Payments and Trade:			
Merchandise Exports (FOB)	46,003	56,682	72,356
Exports to U.S.[5]	10,568	13,977	[6]15,800
Merchandise Imports (FOB)	42,861	54,941	72,554
Imports from U.S.[5]	6,064	6,965	[6]8,100

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Aid from U.S.	0.3	0.3	0.5
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	14,149	14,257	16,729
Debt Service Payments (paid)[7]	537	932	1,156
Official Net Reserves	29,741	26,020	26,800
Merchandise Trade Balance	3,202	1,741	−198
Balance With U.S.	4,504	7,012	7,700

[1] Malaysian Government Estimates.
[2] Converted at annual average exchange rates, GDP at market prices.
[3] Calculated in ringgit to avoid exchange rate changes.
[4] 1995 data to July only.
[5] U.S. Department of Commerce data.
[6] Embassy estimates.
[7] Excluding prepayments.

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy; real GDP has grown between 6 and 8 percent per year 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 falling one 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 1995 real GDP growth is expected to reach 9.6 percent.

While the government plays a diminishing role as a producer of goods and services, it continues to hold equity stakes (sometimes significant ones) 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. Government-owned entities are major players in some sectors, particularly plantations and financial institutions. In 1986, the government began 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. Similarly, in October 1995 the government sold its controlling interest in Heavy Industries Corporation of Malaysia (HICOM), owner of the national car manufacturing facilities, to a private company. Seaports, government hospitals and post offices are in various stages of privatization.

Malaysia supports global trade liberalization measures and encourages direct foreign investment, particularly in export oriented manufacturing and high tech products. It was very active in the Uruguay Round negotiations and ratified the agreement on September 6, 1994. Malaysia's 1996 Federal budget, tabled in Parliament October 27, 1995, reduced import tariffs on over 710 items and abolished import duties and sales tax on 800 items of raw materials and equipment.Multinational corporations control a substantial share of the manufacturing sector. U.S. and Japanese firms dominate the production of electronic components (Malaysia is the world's third largest producer of integrated circuits), consumer electronics, and electrical goods. Foreign investors also play important roles in petroleum, textiles, vehicle assembly, steel, cement, rubber products, and electrical machinery.

Fiscal Policy: The government follows a conservative fiscal policy, with a surplus in its operating account. The government reduced the personal income tax from a maximum tax rate of 32 percent to 30 percent in the 1996 budget, bringing it to the same level as the corporate income tax rate. The most recent budget, despite a growing current account deficit, is viewed as mildly expansionary.

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 Policies

Malaysia has a substantially open foreign exchange regime. The Malaysian currency, the ringgit (RM), floats against the U.S. dollar. Bank Negara (the central

bank) does not specifically peg the ringgit, but does intervene in the foreign exchange market to smooth out fluctuations and discourage speculation on the ringgit. It generally tracks the ringgit's value against a trade-weighted basket of currencies in which the U.S. dollar has a large weighting.Bank Negara's stated policy is to maintain a stable exchange rate which reflects the currency's true underlying value rather than to manipulate the rate to boost exports.Following a three year period when the dollar-ringgit rate traded in a narrow range (RM2.70–RM2.75 per dollar), the ringgit rose rapidly during the first two months of 1992 to RM2.50 per dollar. At the end of 1993, the ringgit weakened to a low of RM2.70 per dollar when capital controls were imposed by Bank Negara. When the restrictions were reversed in the third quarter of 1994, the ringgit strengthened, reaching RM2.43 per dollar in June 1995. It has since traded between RM2.50 and RM2.54 per dollar.

Payments, including repatriation of capital and remittance of profits, are freely permitted. Payments to countries outside Malaysia can be made in any foreign currency other than the currencies of Israel, Serbia and Montenegro. No permission is required for payments in foreign currency up to RM50,000 (approximately $20,000). Individual foreign exchange transactions above RM50,000 must be reported but do not require prior approval. Exchange control approval is required for loans exceeding an aggregate of RM10 million ($4 million) from domestic credit facilities for non-resident controlled companies. Effective December 1, 1994, exporters are allowed to maintain a foreign currency account with any one of the designated "tier-1" banks. They are also permitted to maintain overnight balances of between $1 million and $5 million. Resident individuals may open foreign currency accounts up to $100,000 with designated banks for education and employment purposes. No permission is required for a non-resident to undertake direct or portfolio investment in Malaysia.

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, cement, motor vehicles, rice, flour, sugar and tobacco. Citing concerns about inflation, 25 items were temporarily added to the price control list on October 16, 1994, and removed on June 10, 1995. On November 21, 1995, the Domestic and Consumer Trade Ministry announced that it was putting 25 items on the price control list for the coming festival season in February 1996.Overall tariffs average less than 10 percent on a trade-weighted basis and import licenses are required for a small range of goods, e.g., automobiles, meat, tobacco and plastic resins. Since 1993 the federal government has lowered or eliminated tariffs on over 5,200 items to defuse domestic inflation and to meet commitments in the Uruguay Round and the Association of South East Asian Nations (ASEAN) Free Trade Agreement (AFTA).

The agricultural sector, however, does contain some restrictive tariffs and non-tariff barriers. For example, the government fixes floor prices for locally grown rice and tobacco to encourage domestic production and to boost depressed rural incomes. Despite this price incentive, local rice production does not meet demand; the sole authorized importer, a government-owned corporation, must import about 40 percent of the country's rice needs. In the case of tobacco, the government pushes cigarette manufacturers to use a high proportion of local tobacco. Imports of tobacco are restrained by high import duties and controlled through import licenses.

Tax Policies: Income taxes, both corporate and individual, account for about 35 percent of government revenue. Indirect taxes, comprising export and import duties, excise taxes, sales taxes, service taxes and other taxes account for another 35 percent of government revenue. The remainder comes largely from profits of state-owned enterprises and petroleum taxes. Sales taxes on imported food products are uniformly collected at the port of entry while competing domestic goods can escape the equivalent tax rates.However, the government has stepped up efforts to fine domestic manufacturers that evade sales taxes.

Regulatory Policies: The government encourages foreign and local private investment. Manufacturing companies which export at least 80 percent of output currently have no equity limits. For companies exporting 51 percent to 79 percent of output, foreign equity is allowed up to 79 percent. Companies exporting 20 percent to 50 percent of output, foreign equity up to 51 percent is allowed.

4. Debt Management Policies

Malaysia has a strong credit rating in international financial markets; most public and private companies have no difficulty accessing funds. Malaysia's medium and long term foreign debt (both public and private sector) is expected to stand at $27.4 billion at the end of 1995, about 32 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.2 percent in 1994.

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 unprocessed tobacco is RM50 ($20) per kilogram, plus five percent ad valorem. While this policy reduces leaf imports, the greatest impact appears to fall on 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, the government 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, snackfoods, and many other processed foods, range between 20 and 30 percent.In the 1994 and 1995 budgets, import duties on most fresh fruit were reduced to 10 percent. Import duties for areca, brazil and cashew nuts, as well as for a variety of fresh berries including strawberries were cut in half from 10 percent to 5 percent ad valorem in the 1996 budget. Other food items which also now enjoy slightly lower duties include frozen fruits such as pears, peaches, strawberries and apricots. The duties for most food ingredients and raw materials used in food processing have been eliminated. There are also no duties on imported raw materials such as corn and soybean used in making livestock feed.

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 several categories of 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. The 1996 budget abolished the import duty on certain categories of paper or paperboard; these duties were not among those increased in April 1994.

High Import Duties On Alcoholic Beverages: Tariffs on alcoholic beverages, for the first time in many years, did not increase in the 1994 and 1995 budgets. In addition, duties for still wines and vermouth were reduced by 55 percent in the 1996 budget. Duties on wine and beer are now RM103 ($41) per decaliter and RM74 ($29.6) per decaliter, respectively.

Tariff Quota for Chicken Parts: Although import licenses are required for poultry and poultry products, import duties were abolished in the 1995 budget and Malaysia has now opened this previously closed market with the establishment of a modest tariff-rate quota. 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 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, there is a single import regime for Malaysia. 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 Singapore and Japan.

Rice Import Policy: Because subsidized local production satisfies only part of domestic demand, the National Rice Company (Padiberas Nasional Berhad or Bernas), as the sole legal importer, imports substantial quantities of rice.Bernas was "corporatized" on July 7, 1994 and engages in paddy procurement, rice-milling and rice trading.

Import Licenses: Malaysia makes limited use of import licensing, but licenses have been cited as significant barriers for imports of automobiles and plastic resins. 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. The guidelines for employment of foreign professionals such as engineers, architects, and consultants taking part in infrastructure projects will be tightened in the 1996 budget. 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. For example, no new banking licenses are being granted for either local or foreign corporations (with the exception of the Bank of China which reportedly will be allowed to open a branch.) Foreign-controlled companies are required to obtain 60 percent of their local credit from Malaysian banks. Foreign corporations may obtain domestic credit facilities of up to RM10 million ($4 million) without approval in addition to short term trade financing and forward exchange contracts. Under the terms of the 1987 Banking and Finance Act, all foreign controlled banks were required to change 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 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. Foreign investors may hold 30 percent of mutual fund management companies.

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 ($400,000). 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 6 percent for both post-shipment and pre-shipment credit.

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

overseas advertising and travel;
supply of free samples abroad;
promotion of exports;
maintaining sales offices overseas; and
research on export markets.

7. Protection of U.S. Intellectual Property

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

The Trade Description Act of 1976, the Patent Act of 1983, the Copyright Act of 1987, and the Copyright (Amendment) Act of 1990 have greatly strengthened protection for intellectual property in Malaysia. Under the Copyright (Amendment) Act of 1990, and the accompanying accession to the 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 pirated videotapes and computer software 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 a 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 of Association.*—Unions may organize workplaces, bargain collectively with an employer, form federations, and join international organizations. As of June 30, 1994, there were 519 unions registered in Malaysia, of which 60 percent are enterprise-level unions, and twelve percent of the workforce were members of trade unions. The Trade Unions Act defines a trade union as representing workers in a "particular trade, occupation, or industry or within any similar trades, occupations, or industries thereby restricting a union's ability to organize." A trade union for which registration has been refused, withdrawn or cancelled is considered an unlawful association. Strikes are legal and relatively few (14 strikes in 1994). Government policy places a de facto ban on the formation of unions in the electronics sector, but allows in-house unions. 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.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is the norm in Malaysian industries where workers are organized. Malaysia's system of conciliation and arbitration, which requires negotiation and settlement of issues before resorting to industrial action, effectively restricts collective bargaining rights through compulsory arbitration. There were 346 collective bargaining agreements, approximately 70 percent of 550 trade disputes, referred to the Industrial Court in 1994 and settled. The government proposes to eliminate an exemption for firms granted "pioneer" status which protected them from union demands exceeding those specified in the Employment Act of 1955.

c. *Prohibition of Forced or Compulsory Labor.*—There is no evidence that forced or compulsory labor occurs in Malaysia for either Malaysian or foreign workers. However, there have been claims by foreign workers that employers routinely deduct employment agency fees (under other costs) from their wages.

d. *Minimum Age for Employment of Children.*—Employment of children is covered by the Children and Young Persons (Employment) Act of 1966, which stipulates that no child under the age of 14 may be engaged in any employment except light work in a family enterprise or in public entertainment, work performed by the government in a school or training institution, or employment as an approved apprentice. The Ministry of Human Resources maintains a staff to enforce regulations prohibiting children from working more than six hours per day, more than six days per week, or at night.However, according to nongovernmental organizations, there are many children between the ages of 10–14 working full-time, mostly on plantations.

e. *Acceptable Conditions of Work.*—The Employment Act of 1955 sets working conditions, most of which are at least on a par with standards in industrialized countries. 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 may not have access to Malaysia's system of labor adjudication. The government has implemented programs to legalize the status of foreign workers, in an effort to prevent the exploitation of illegal workers.

f. *Rights in Sectors With U.S. Investment.*—The largest U.S. investment in Malaysia is in the petroleum sector. Exxon has two subsidiaries operating in Malaysia. Esso Production Malaysia Incorporated (EPMI), which is 100 percent owned by Exxon, handles offshore oil and gas production. Esso Malaysia, which is 65 percent owned by Exxon and 35 percent by a range of Malaysian individuals and institutions, refines and markets oil products in Malaysia. Employees at both companies are represented by the National Union of Petroleum and Chemical Industry Work-

ers (NUPCIW), which has negotiated collective agreements with management. Some EPMI employees have broken away from the NUPCIW and formed a separate in-house union. Pay and benefits at both companies are considered excellent. Other U.S. oil and gas firms operating in Malaysia are mainly involved in marketing petroleum products and rely heavily on foreign workers.

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 component manufacturers operate 27 plants in Malaysia, employing more than 55,000 Malaysian workers.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		396
Total Manufacturing		1,582
Food & Kindred Products	5	
Chemicals and Allied Products	66	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	1,209	
Transportation Equipment	0	
Other Manufacturing	208	
Wholesale Trade		142
Banking		57
Finance/Insurance/Real Estate		153
Services		(2)
Other Industries		53
TOTAL ALL INDUSTRIES		2,382

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

NEW ZEALAND

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:[1]			
Real GDP (1982/83 prices)[2]	19,138	20,956	24,142
Real GDP Growth Rate (percent)	1.4	5.4	3.7
GDP (at current prices)[2]	40,048	44,255	53,051
GDP by Sector (at current prices):[3]			
Agriculture	2,677	2,929	3,285
Fishing/Hunting/Forests/Mining	1,749	2,786	2,873
Manufacturing	7,919	9,018	10,748
Electricity/Gas/Water	1,075	1,325	1,462
Construction	1,169	1,506	2,158
Trade/Restaurants/Hotels	6,038	6,803	8,230
Owner Occupied Dwellings	3,249	3,436	3,911
Transport and Storage	1,968	1,915	2,140
Finance/Insurance/Business Services	5,215	5,405	6,257
Communications/Other Services	3,603	3,959	4,751
General Government Services	4,902	5,034	5,464
Net Exports of Goods and Services	1,004	1,316	1,047

Key Economic Indicators—Continued

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

	1993	1994	1995
Real Per Capita GDP (1982/83 prices in US$)[2]	5,477	5,917	6,720
Labor Force, June (000s)	1,648	1,685	1,728
Unemployment Rate, June (percent)	9.9	8.4	6.3
Money and Prices (annual percentage growth, March yr.):			
Money Supply (M2 July/July growth)	−0.9	12.7	6.7
Base Lending Rate (actual Sept.)	10.4	9.4	12.1
Personal Saving Ratio (percent)[3]	6.6	5.5	5.6
Consumer Price Index	1.0	1.3	4.6
Producer Price Index (June/June)	2.5	1.6	0.8
Exchange Rate (US$/NZD, average for March yr.)	0.5324	0.5532	0.6147
Balance of Payments and Trade:[4]			
Total Exports FOB[5]	10,100	10,968	12,861
Exports to U.S.	1,201	1,233	1,333
Total Imports CIF[5]	9,228	10,217	13,070
Imports from U.S.	1,704	1,872	2,473
Aid Receipts	0	0	0
External Public Debt (March yr.)	14,322	16,444	13,523
Debt Service Ratio (March yr.)[6]	47.0	42.2	13.4
Gold and Foreign Exchange Reserves	3,337	4,011	3,471
Trade Balance[5]	872	751	−209
Trade Balance with U.S.	−503	−639	−1,140

[1] Reporting data for years ending March 31.
[2] GDP by expenditure using constant prices for the year ending March 31, 1983.
[3] Estimates by N.Z. Institute of Economic Research. GDP by sector is production based.
[4] Fiscal year ending June 30. FY 1994/95 data preliminary.
[5] Merchandise Trade. FY 1994/95 data preliminary.
[6] Principal payments on medium and long term debt plus interest payments on total debt, as a percent of exportsof goods and services and investment income. FY 1994/95 estimated.

1. General Policy Framework

New Zealand is a modern developed economy with a heavy reliance on foreign trade. Its exports and manufacturing are based significantly on agriculture. Tourism is the single largest foreign exchange earner, followed closely by meat exports. While North American and European markets remain important, Asia represents New Zealand's growth market (taking 38 percent of its exports by mid-1995). Australia remains New Zealand's largest trading partner and partner in the Australia-New Zealand Closer Economic Relations (CER) Trade Agreement. The United States follows Japan as New Zealand's third largest trading partner. An efficient, unsubsidized producer of agricultural products, New Zealand strongly supported the WTO Uruguay Round Agreements. On November 29, 1994, Parliament enacted eleven different amendments, which together ratify the Uruguay Round Agreements. New Zealand is meeting obligations to make notifications on implementation of its WTO commitments. Through the WTO and APEC, New Zealand actively supports global and regional trade and investment liberalization. It seeks arrangements bilaterally or through the CER to facilitate trade and investment with key markets (e.g., Chile, Canada, ASEAN).

Begun by a Labour Party government in 1984 and furthered by National Party governments in the 1990s, New Zealand's structural reforms and market liberalization have created a market driven, deregulated economy with strong long term growth prospects. Reforms abolished agricultural subsidies, enhanced labor mobility, ended foreign exchange controls and import licensing, slashed protective tariffs, and floated the New Zealand dollar. To reestablish fiscal responsibility, the government cut social spending and privatized government monopolies and enterprises (many sold to U.S. interests). New Zealand now enjoys a growing budget surplus expected to rise to 7.7 percent of the GDP by mid-1997.

The New Zealand government refinances its maturing debt (including substituting domestic for foreign debt) and manages its cash flow through periodic issuing of government securities. These are held by both domestic and foreign investors. The government obtains most of its annual income from direct taxes ($12 billion in FY

1995) on company profits and personal incomes. The maximum personal and corporate income tax rate is currently 33 percent. The second largest revenue earner is the Goods and Services Tax (GST) of 12.5 percent on all sales of goods and services. Assuming continued price stability, the government plans to use its budget surplus to lower income tax rates for most New Zealanders during fiscal years 1996/97 and 1997/98 while reducing the country's debt, eliminating all public sector foreign debt, and increasing social spending.

Economic stabilization is left largely to the independent Reserve Bank of New Zealand (RBNZ). Under the Reserve Bank Act of 1989, the RBNZ's primary function is to keep inflation under control. The precise definition of price stability must be agreed upon between the Minister of Finance and the RBNZ in a Policy Targets Agreement, which the government can override only in limited circumstances. Price are considered stable under the present agreement if the annual change in the "all-groups CPI" remains within the range of zero to two percent. This range excludes the direct interest rate effect on the CPI, and price shocks from the terms of trade or natural disasters and from changes in indirect taxes and government charges. Thus, the Reserve Bank's policies are either neutral (allowing the market to set interest rates while inflation is low) or actively deflationary. When inflationary pressures persist, the RBNZ usually tightens monetary conditions by jawboning the market, with the financial community nudging short term interest rates higher.Should this fail, the RBNZ uses open market operations or cuts the daily cash target (amount of cash available to commercial banks to settle accounts at close of each business day).

After two years of overheated expansion, the RBNZ's tight monetary policy since late 1994 has settled the economy into a more sustainable long term annual real GDP growth pattern of three to four percent, with falling unemployment and low inflation. Slower than expected GDP growth and restored price stability by September 1995 has allowed the RBNZ to accept some softening of interest rates a quarter or more ahead of schedule. The Reserve Bank will remain vigilant, however, to counteract the inflationary effects of anticipated tax cuts in 1996 and 1997. The current account deficit continues (and will continue) to rise, but this has positive long term implications as the imbalance is caused primarily by rapid growth of capital imports and productive capacity expansion.

2. Exchange Rate Policies

The New Zealand Dollar was floated in March 1985 as part of a broad based deregulation of financial markets. The Reserve Bank has not intervened in the foreign exchange market since the float. In early November 1995, the New Zealand dollar was trading at 65 U.S. cents, having appreciated six percent against the U.S. dollar in the previous 12 months.Most analysts believe the New Zealand dollar could continue torise slowly against most major world currencies over the next few years, given the strength of the economy and relatively high interest rates. Thus, U.S. goods and services should remain competitively priced in the New Zealand market.

Reliant on foreign trade, New Zealand views both short term interest rates and the Trade Weighted Index (value of the New Zealand dollar against the currencies of the country's major trading partners) as principal indicators of price stability. While not attempting to run a fixed exchange rate band, the Reserve Bank does seek "comparative exchange rate stability," influencing the exchange rate indirectly through movements in short term interest rates. When the Trade Weighted Index rises strongly, the Reserve Bank tends to allow domestic interest rates to soften as domestic producers discount to compete with cheaper imports and exporters increase productivity to maintain foreign sales. When the trade weighted exchange rate falls sharply, the RBNZ tends to nullify the effect of imported inflation by pushing up short term interest rates.

3. Structural Policies

In 1985 the Government of New Zealand began a policy of market liberalization and deregulation that has opened the economy to foreign competition and investment. In 1988, the government reported that 93 percent of imports entered New Zealand duty free. In March 1991, a program was announced to cut most remaining tariffs by one third from 1993 to 1996.Further reductions of up to a third will likely begin by 1997.

The Employment Contracts Act of 1991 abolished compulsory unionism and the practice of nationwide occupational awards.The removal of these restrictive practices has increased labor mobility, reduced labor costs and hours lost to strikes, and improved productivity. The government also implemented sharp reductions in social benefits, introducing partial user charges in 1991 for health and education and rationalizing housing assistance. In 1993, despite strong public resistance, the major

political parties agreed to changes to the universal retirement system to control costs.

With budget surpluses rising, the government observed in 1995 that not all New Zealanders have benefited from reform and plans to increase spending in 1996 for family benefits, education, and health care. The government is also acting on recommendations of the bipartisan Employment Task Force to lower the effective marginal tax rate on welfare beneficiaries to encourage more labor force participation by the long-termunemployed. Minorities, suffering a widening employment and income gap, will be given extra help to train for and seek employment. Young job seekers will also receive personal counselling. At the same time, able-bodied, single beneficiaries withoutdependent children who do not actively seek work will see their welfare benefits sharply reduced or ended.

4. Debt Management Policies

Gross public debt grew from 45 percent of GDP in 1973 to a peak of 77 percent in 1987. In June 1995, total public debt was $20.4 billion, or 37.9 percent of GDP. This improvement is due largely to the use of proceeds from privatization to repay external debt. Current projections show the debt falling to below 30 percent of GDP and all public foreign currency debt eliminated by June 1997. In FY 1987/88, public debt service was $3.3 billion, or 8.4 percent of GDP and 20 percent of government expenditures. In FY 1994/95, it dropped to $2.2 billion, or 1.9 percent of GDP and 12 percent of expenditures. External debt in FY 1994/95 accounted for 23 percent of total government debt. Interest on external debt equaled 3.5 percent of exports of goods and services plus investment income.

5. Significant Barriers to U.S. Exports

New Zealand embarked on a unilateral tariff liberalization program in 1985 with an announcement that tariffs would be reduced to zero on any goods not also produced in New Zealand. Tariffs on most 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 March 1991, a program was announced to cut most tariffs again by one third between 1993 and 1996.

Under separate treatment for locally produced goods covered by former industry plans, relatively high tariffs for apparel, textiles, curtains, carpets, footwear, motor vehicles and car tires will be reduced in stages through 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. These tariffs could be trimmed by up to a third in a new tariff reduction schedule expected to be put in place before 1997.Despite protests by domestic manufacturers, duty reductions on highly protected goods have growing domestic support. For example, although five Japanese and U.S. owned passenger car assemblers maintain that further tariff reductions would jeopardize jobs and kill a potential export market to Australia, their opponents (importers of used cars, mostly from Japan) counter that the present duties increase the price of cars in New Zealand by an average of $3,000.

With the coming into force of the WTO Uruguay Round Agreement in 1995, tariffs on only two categories of imports, used cars and used clothing, remain 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 WTO commitments and unilateral reduction plans should expand commercial opportunities for U.S. exporters.New Zealand also completed the dismantling of a highly restrictive import licensing regime in 1992. 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 on January 1, 1994.

While there is an active public debate over the issue, foreign direct investment is welcomed. It is actively sought to increase New Zealand access to foreign technology, managerial expertise, and distribution networks. Approval by the Overseas Investment Commission (OIC) is required for all foreign direct investment over NZD ten million (applied to both acquisitions and greenfield investments) or if foreign participation in a company exceeds 24.9 percent. No performance requirements are attached to foreign direct investment. Full remittance of profits and capital is permitted through normal banking channels. The Overseas Investment Amendment Bill passed in August 1995 eliminated an outmoded, duplicative approval system for foreign land purchases by placing the responsibility for such approvals solely with the OIC. The bill also gives the OIC the authority to monitor compliance with investment approval conditions and increases the penalty for noncompliance with

these conditions. If foreign investors are found to have falsified their approval applications, the High Court can order the disposal of their New Zealand holdings.

In practice, the OIC approves virtually all investment applications, and its approval requirements have not been an obstacle for U.S. investors. There is no limit to foreigners investing in any sector or acquiring 100 percent ownership of any firm. 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. Major food processing and forestry companies have also been sold to U.S. firms. The exceptions are prohibitions against foreign ownership of Air New Zealand to preserve landing rights; the 1973 Fisheries Act which allows foreigners only to lease New Zealand fishing rights; and a general edict against ownership of government owned forestry tracts (these can be leased, however, by both domestic and foreign interests).

The U.S. government recognized New Zealand's generally liberal trading environment 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 last TIFA meeting was held in Washington in July 1995.

6. Export Subsidies Policies

New Zealand acceded to the GATT Subsidies Code in 1981 and eliminated seven GATT-inconsistent subsidy programs through 1990. New Zealand will now limit its use of subsidies in accordance with WTO obligations.

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 supports measures to enhance intellectual property protection in multilateral and regional economic fora. The Government of New Zealand effectively enforces 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 intelle tual property protection.

New Zealand intellectual property rights laws have been under review for a number of years. In 1992, New Zealand repealed Section 51 of the Patents Act of 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 intellectual property legislation in other industrialized countries. In November 1994, significant amendments were made to current laws protecting intellectual property rights as part of the package of eleven amendments passed to ratify the Uruguay Round Agreements. These include the Patents Amendment Act of 1994, Trade Marks Amendment Act of 1994, and Geographical Indications Act of 1994. Copyright laws were amended under the Copyright Act of 1994 and Layout Designs Act of 1994.These reforms are mainly aimed at bringing New Zealand's laws into conformity with the TRIPS (Trade Related Intellectual Property Rights) Agreement.

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 ICTFU'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 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 mem-

bers of the armed forces are not permitted to organize unions or to bargain collectively.

The Employment Contracts Act (ECA) of 1991 deregulated the labor market and sharply broke with almost a century of pro-union industrial legislation. It has enhanced labor mobility, helped to lower the numbers of long term unemployed, and increased New Zealand's international competitiveness.Under the ECA, unions lost their special legal status and have no inherent right to represent any particular group of workers. Compulsory unionism 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. The government does not control mediation and arbitration procedures. 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 Contacts 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$4.06 per 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.

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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		282
Total Manufacturing		1,274
Food & Kindred Products	(1)	
Chemicals and Allied Products	131	
Metals, Primary & Fabricated	11	
Machinery, except Electrical	3	
Electric & Electronic Equipment	46	
Transportation Equipment	(1)	
Other Manufacturing	633	
Wholesale Trade		118
Banking		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	209
Services	(1)
Other Industries	1,571
TOTAL ALL INDUSTRIES	3,577

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985=100)	27,071	28,990	31,258
Real GDP Growth (percent)	2.1	4.3	5.1
GDP (at current prices)	54,368	63,910	74,455
GDP by Sector (current prices):			
Agriculture	11,746	14,113	16,053
Energy and Water	1,343	1,699	2,006
Manufacturing	12,8911	14,906	17,549
Construction	2,923	3,673	4,162
Dwellings/Real Estate	3,633	4,327	[5] N/A
Financial Services	2,159	2,550	[5] N/A
Trade	7,654	8,736	[5] N/A
Government Services	3,818	4,555	[5] N/A
Health/Education (private)	1,329	1,620	[5] N/A
Other Services	6,261	7,106	[5] N/A
Net Exports of Goods & Services	−593	−5,900	−5,600
Real Per Capita GDP (US$)	407	425	448
Labor Force (000s)	26,879	27,654	28,400
Unemployment Rate (percent)	9.2	9.5	9.4
Money and Prices (annual percentage growth):			
Money Supply (M2)[2]	24.6	26.8	29.5
Average Loan Rate[3]	14.6	15.0	15.5
Average Savings Rate[3]	8.3	8.0	8.5
Retail Price Index (Manila)	2.0	7.1	6.5
Wholesale Price Index (Manila)	−1.1	8.2	2.5
Consumer Price Index (Phil.)	7.6	9.0	8.1
Average Exchange Rate (pesos/US$):			
Official (interbank rate)	27.12	26.42	25.78
Parallel (US$ buying rate)	27.07	26.38	25.65
Balance of Payments and Trade:			
Merchandise Exports (FOB)	11,375	13,483	17,260
Exports to U.S. (Phil. data)	4,371	5,143	6,120
Merchandise Imports (FOB)	17,597	21,333	26,030
Imports from U.S. (Phil. data)	3,522	3,941	4,650
Bilateral Aid, U.S.[4]	160	90	98
Bilateral Aid, Others	1,727	1,642	2,050
External Public Debt	34,282	37,698	41,000
Debt Service Payments (paid)	3,196	4,065	5,100
Gold and FOREX Reserves	5,801	6,995	8,200

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Merchandise Trade Balance	−6,222	−7,850	−8,770
Merch. Trade Balance with U.S.	849	1,202	1,470

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

[1]Estimated from data available as of October 1995.
[2]Growth rate of year-end M2 levels.
[3]Actual annual average interest rates, not changes in them.
[4]Inflows per balance of payments, net of inflows from the U.S. Veterans Administration (USVA).
[5]Overall service sector output for 1995 estimated at $33,728 million.

1. General Policy Framework

Although the Philippines historically has had to grapple with a "boom-and-bust" economic growth pattern, confidence in the country's economic prospects has been steadily building up since 1992 with the restoration of political stability, serious efforts to address macroeconomic imbalances and infrastructure constraints, and the country's reentry into the capital markets. While poverty and highly skewed income distribution remain important concerns, a more soundly based economic rebound has begun to emerge since 1993, aided by efforts to liberalize the relatively closed Philippine economy of the past. Exports and investment led 1994's 5.2 percent real gross national product (GNP) expansion. This trend has continued thus far in 1995 and is expected to spur GNP growth to between 5.5 to 6.0 percent. Measures to open up the economy also are having positive effects on the balance of payments in terms of spurring export growth, encouraging higher overseas workers' remittances, attracting foreign direct and portfolio investments, and increasing trade finance.

Continuing and expanding the initiatives of its predecessor, the Ramos administration is implementing a far-reaching reform program towards sustaining economic expansion and transforming the Philippines' agrarian-based economy into an industrial market-driven one. Although social and political resistance remain, the Philippine government has already succeeded in implementing important reforms to:liberalize the trade, foreign exchange and investment regimes; privatize parastatals; reduce entry barriers in vital industries (such as banking, insurance, telecommunications and oil); and encourage private sector investments in much needed infrastructure. The country became a founding member of the World Trade Organization (WTO) on January 1, 1995. Provided reforms continue, optimism is growing that the Philippines may, at last, be embarking on a path of sustained strong growth.

Achieving and sustaining fiscal balance is an important goal in the Philippine government's overall program to improve and sustain macroeconomic stability. In 1994 the national government achieved its first fiscal surplus in two decades, the effect of new or higher taxes, upward adjustments in fees and charges, strong privatization receipts and expenditure cuts. Debt servicing's share of the budget pie has declined in recent years, from almost half to under a third today.Short term debt still constitutes the bulk of outstanding public sector securities, but the government has had increasing success with the issuance of medium-term notes.The government's medium term goal through the year 2000 is to sustain a fiscal surplus to finance the repayment of its external and domestic debts.

The financial restructuring in 1993 of the Central Bank (now known as Bangko Sentral ng Pilipinas, BSP) restored the monetary authority's ability to conduct monetary and exchange rate policy more effectively. Armed with a clean balance sheet and a portfolio of treasury securities with which to conduct open market operations, the BSP has been able to implement staggered reductions in reserve requirements since 1993 (i.e., from 25 percent to 17 percent). In recent years, surges of foreign capital flows into emerging and liberalizing markets like the Philippines have had a strong expansionary impact on domestic liquidity, posing an additional challenge for monetary and foreign exchange policymakers.

2. Exchange Rate Policies

The Philippines has taken significant steps since 1992 to deregulate its foreign exchange system, leading to the full convertibility of current account transactions. Except for some remaining restrictions on foreign investments and on foreign debt, the Government has also lifted most restrictions on capital account transactions. Among others, the current regulations allow immediate investment repatriation and remittance privileges without requiring the BSP's approval.In September 1995 the

Bangko Sentral announced that the country had officially joined the ranks of "Article VIII" International Monetary Fund (IMF) member countries, indicating its commitment to an open and liberal foreign exchange and payments regime.

The foreign exchange rate is generally set freely in the interbank market, which was transformed in 1992 from short daily on-floor trading sessions to full off-floor trading under an automated dealing system. The Bangko Sentral imposes limits on individual banks' overbought and oversold foreign exchange positions. Targeted for elimination by end-1996, the Philippine government has started phasing down a forward foreign exchange cover scheme for oil imports.

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 to investors in government-preferred activities (see Section 6). The Foreign Investments Act of 1991 allows full foreign ownership of companies engaged in activities not covered by investment incentives, except those covered by a foreign investment "negative list" (see Section 5—Investment Barriers).

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, mostly through the maintenance of quantitative restrictions. Reforms since 1993 have also improved access to important service industries such as telecommunications, banking and insurance. In October 1995 the government issued regulations to reduce non-price controls in the oil sector, notably on the importation of petroleum products and, with the exception of refineries, on the establishment of facilities such as gas stations, depots and LPG filling tanks. In May 1994 the Government improved its 1990 build-operate-transfer (BOT) law by expanding the number of BOT variations, simplifying rules and regulations, and allowing more flexibility in pricing.

Since 1993 the Government has also adopted a number of measures to beef up revenues. Among others, it increased stock transaction and documentary stamp taxes, restructured cigarette taxes, imposed a minimum three percent tariff, and increased various government fees and charges. The government has announced implementation of an expanded value added tax (EVAT) law (which will extend 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) starting January 1996. To consolidate recent fiscal gains, the government is relying on congressional approval of a comprehensive tax reform program to sustain future revenue flows and, on the expenditure side, plans to implement a reduction and reorganization of the civil service. However, implementing legislation for both of these plans has been delayed, and it is doubtful that they will take effect before 1997.

4. Debt Management Policies

Like its predecessor, the Ramos administration has continued the firm commitment to servicing the country's foreign obligations, rejecting occasional congressional and other political rhetoric calling for debt repudiation and/or debt service caps. The Philippine government has had four debt rescheduling rounds with its official bilateral (i.e., Paris Club) creditors. Between 1990 and 1992, the government also repurchased and/or restructured nearly $6 billion in debt owed to foreign commercial banks, which enabled the Philippines to reenter international capital markets in 1993 after a decade's absence. A debt-to-equity swap program, in effect from 1986 to 1993, also helped reduce the country's foreign debt burden.

The appreciation of the yen has had an expansionary effect on the foreign debt level, but debt servicing is no longer a severe problem. As of June 1995, the country's foreign debt was $40.6 billion, between 50 to 55 percent of GNP, compared with over 90 percent of GNP in the mid-1980s. The ratio of debt service to goods and services export receipts is currently at 16 percent, down from nearly 40 percent in the early 1980s.

The IMF approved a three-year extended arrangement in mid-1994 which the Philippines envisions as an exit arrangement. The Government did not conclude a fifth Paris Club debt rescheduling agreement, in line with its aim to wean the country from exceptional financing. The Philippines continues to benefit from various sector-specific assistance and structural adjustment programs provided by other multilateral institutions such as the Asian Development Bank and the World Bank Group.

5. Significant Barriers to U.S. Exports

Tariffs: Following the completion of the GOP's five-phase tariff reform program under Executive Order (EO) 470, the President issued a new wide-ranging six-phase tariff simplification and reduction package encompassing harmonized tariff code chapters 25 thru 97 but excluding chapters 1–24 (most agricultural imports). EO 264 progressively lowers tariffs on most industrial manufactures effective August 28, 1995 through the year 2000. For the manufacturing sector, the average nominal tariff will fall from 14.02 to 7.48 percent and for mining, average tariff goes down to 3.90 percent from 7.31 from 1995 to 2000. Given the current average nominal tariff of 28 percent for agriculture, the Philippines' current average nominal tariff of 15.88 percent will be lowered to 10.40 by the year 2000. (Note: This tariff reform program has not been extended to many agriculture goods because of failure to implement the Uruguay Round commitments in agriculture. The GOP is carefully reviewing a separate tariff restructuring program for agricultural imports after implementation of the Philippines' UR commitments.) Broadly, the new tariff schedule imposes a maximum tariff of 30 percent on finished goods, 20 percent on components, 10 percent on raw materials produced locally and three percent on those not available locally.

Exempted from the 30 percent tariff ceiling, and to enjoy a 40 percent protection up to 1999, are 14 tariff lines including all categories of new completely built-up passenger cars. This was in preparation for opening the automotive industry and exposing domestic assemblers to foreign competition, which was just recently implemented by the Bangko Sentral effective October 20, 1995. BSP Circular No. 92 deleted from the list of regulated commodities imports of new automobiles, other light motor vehicles and used buses, and motor vehicles for the transport of goods.

Of particular interest to the United States 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 may contravene a WTO provision.

Import Licenses: The GOP is preparing to make necessary legislative changes to Philippine laws in conflict with the Uruguay Round Agreement. The "Magna Carta of Small Farmers" continues to ban imports of farm commodities produced locally in "sufficient quantity." The Philippines' delay in implementing its WTO UR commitments to repeal quantitative restrictions on agricultural items has been a source of bilteral contention. The target date for implementation has been delayed to at least late spring 1996. The Philippines did not commmit to remove quantitative restrictions on rice, which can only be imported by the National Food Authority.

To avail of export quota allocation, a Garment and Textile Export Board "Authority to Import" is required for imports of pre-cut fabrics and accessories for processing into finished wearing apparel and textile products for export. Several restricted and controlled items remain subject to quota restriction for reasons of public health, morals and national security.

Services Barriers: Banking—A new law, signed in May 1994, relaxed restrictions in place since 1948. A foreign investor can enter either on a wholly owned branch basis or own up to 60 percent (up from 30 percent) of an existing domestic bank or new locally incorporated banking subsidiary.However, the new law allows only ten new foreign banks entry on a full service, branch basis. (Four were established prior to 1948.) The new foreign banks are also limited to putting up six branches each.

Securities—Membership in the Philippine stock exchange is open to any company (foreign or Filipino) incorporated in the Philippines, however, foreign membership is limited to 30 percent of total membership. 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, but may underwrite Philippine issues for foreign markets.

Insurance and Travel Agencies—For at least two years effective October 24, 1994, these sectors are open to full foreign ownership (See Section 5—Investment Barriers).

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. As a general rule, the Philippine Constitution reserves the practice of professions for Philippine citizens.

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 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) Sanitary and phytosanitary certification, which is often costly, controls imports of meats, fresh fruits, vegetables and seeds.

(c) 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.

(d) Labeling is mandatory for textile fabrics, ready-made garments, household and institutional linens and garment accessories. Mislabelling, misrepresentation or misbranding may subject the entire shipment to seizure and disposal.Minimum requirements for every imported or locally manufactured product are the following:

1. Registered trade or brand name;
2. Duly registered trademark;
3. Duly registered business name;
4. Address of the manufacturer, importer or repacker of the consumer product in the Philippines;
5. General make or active ingredients;
6. Net quantity of contents, in terms of weight, measure or numerical count rounded to at least nearest tenths in metric system;
7. Country of manufacture, if imported; and,
8. If a consumer product is manufactured, refilled or repacked under license from a principal, the label shall state the facts.

Additional information may be required for selected products:

1. Whether the product is flammable or inflammable;
2. Warning of toxicity;
3. Directions for use, if necessary;
4. Process of manufacture used, if necessary; and
5. Wattage, voltage or amperes.

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. For example, 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. While this ceiling may be exceeded in certain cases (i.e., the activity is defined as "pioneer," or at 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.

The BOI continues to impose industry-wide local content requirements under the government's progressive development program for motor vehicles. Current guidelines also specify that participants in the motor vehicle development program generate, via exports, a certain ratio of the foreign exchange needed for import requirements. The government says it will phase down these requirements under its WTO obligations.

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, government procurement policies do not discriminate against foreign bidders. However, preferential treatment is practiced 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 at least be 60 percent Filipino. For other major contracts such as 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 WTO Government Procurement Code.

Customs Procedure: All imports valued at over $500 are permitted only with a preshipment inspection report called a "Clean Report of Findings" issued by the authorized outport inspector. To assess import duties, the Bureau of Customs uses as basis Home Consumption Value (HCV). This permits arbitrary valuation which in many cases (according to extensive anecdotal evidence) does not reflect the selling price, resulting in inconsistent valuation from country to country.

To conform to WTO obligations, the Government has committed to replace HCV with a variation of the Brussels Definition of Value as an interim step to shifting to a transaction value-based system; however, the necessary legislation is still pending before the Congress.

6. Export Subsidies Policies

Enterprises (including exporters) registered with the BOI are entitled to tax and duty exemptions under the Philippine Omnibus Investment Code of 1987. These include: income tax holidays; for pre-1995 BOI registrants, tax and duty exemptions for imported capital equipment up to 1997 or 1999 (depending on location); for post-1994 registrants, a maximum duty of three percent for capital equipment imports up to 1997 (after which regular duty rates will apply); tax credits for domestically purchased equipment and accompanying parts; income tax deductions for incremental labor expense; and tax and duty exemptions on imported genetic materials and breeding stock and or tax credits for local purchases thereof. In addition to these general incentives, a number of benefits under the Omnibus Code apply specifically to BOI-registered export firms, such as tax credits for imports of raw materials and exemption from taxes and duties on imported spare parts.Export companies in government-designated zones and industrial estates registered with the Philippine Economic Zone Authority (PEZA) enjoy basically the same incentives as BOI-registered companies.

Firms which export at least 50 percent of production may also register for incentives under Republic Act No. 7844 of 1994 (the Export Development Act or EDA). Firms registered with the BOI, PEZA or any other government agency which meet the 50 percent export requirement may register under the EDA to avail of any additional incentives under that law. The incentives under EDA include: duty-free importation of capital equipment up to 1997; for exporters of nontraditional products, partial tax credit up to 1997 for locally purchased raw materials, equipment and spare parts; tax credit up to 1999 for imported inputs and raw materials not readily available locally, used for export production/packaging; and tax credit on incremental annual export revenue. The Export Development Act also provides for the establishment of an eximbank which will offer preferential and simplified credit schemes to exporters.

There are a number of specialized credit programs targeted for small and medium-scale enterprises in general or exporters in particular, several of these funded by foreign bilateral or multilateral agencies. Most rates are market-based, although a number of facilities still offer fixed interest rates.There is no preferential rate for

domestic companies. In December 1994, the Bangko Sentral ng Pilipinas launched a $500 million Export Development Fund (EDF) facility (the foreign exchange counterpart of its peso rediscounting facility). The EDF rates are LIBID-based and adjusted periodically. The BSP imposes a ceiling on the spread at which banks can relend the funds (currently one percent, after applicable taxes).

7. Protection of U.S. Intellectual Property

While 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 and the Patent Cooperation Treaty. It is a member of the World Intellectual Property Organization and the WTO.

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 to be submitted to the Congress before the June 1994 end of the congressional session. The government did not, however, meet the deadline.Legislation was introduced in the second half of 1995, and the government has committed to pursue its passage as "priority 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 U.S. firms—for example Disney—in cooperation with Philippine enforcement agencies have had success in curbing piracy. 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 $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 declining 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 compact discs from the United Arab Emirates 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 and related organizations such as state-run universities are reportedly the largest user of illegal software in the country. Government sources report that ongoing talks with U.S. firms on legitimizing the government's use of software are making progress, which representatives of these firms have confirmed.

Special IPR Courts: The Philippines has moved to name special IPR courts, which are to start operating immediately.The Philippine Supreme Court, with Administrative Order No. 113–95, has designated 48 courts to handle IPR violations and to speed up IPR cases. The order instructs all judges to terminate "as far as practicable" the trial of IPR cases in 60 days and to render judgment in another 30 days.

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 audiovisual works under Philippine laws and regulations.

8. Worker Rights

a. *The Right of Association.*—All workers, including public employees, have a right to form and join trade unions—a right which is exercised without national government interference, although opposed in practice by some employers and officials of local government units. 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. However, unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike.

b. *The Right To Organize and Bargain Collectively.*—The Philippine Constitution guarantees the right to organize and bargain collectively. The Labor Code protects and promotes this right for employees in the private sector, as well as those employed 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, there have been complaints about local official efforts to maintain "union free/strike free" policies in several of the export processing zones. Work stoppages and workdays lost to industrial disputes, after trending downward in recent years, showed an increase at midyear over 1994 levels.

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. The exceptions involve situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television where a child's employment is essential. In these cases, employment must not impinge on the child's education, health, safety or morals, and the parent or employer must 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 unpaid family workers in rural areas.

e. *Acceptable Conditions of Work.*—The Minimum Wage Act of 1989 authorized tripartite regional wage boards to set minimum wages. Rates last underwent general revision 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 $5.60 (145 pesos) per day. As a seasonal rice shortage (combined with storm-related and other factors) caused sharp upward price shifts in the second half of 1995, it was expected that regional wage boards would respond accordingly. 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 in agriculture, domestics, laborers, janitors, messengers and drivers) from coverage under the law. Detected minimum wage violations continue to run high.The 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. A comprehensive set of occupational safety and health standards exists in law. Statistics on actual work-related accidents and illnesses are incomplete, as incidents (especially in regard to agriculture) are underreported.

f. *Rights in Sectors with U.S. Investment.*—U.S. 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 export processing zones 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,167
Food & Kindred Products	350	
Chemicals and Allied Products	417	
Metals, Primary & Fabricated	31	
Machinery, except Electrical	- 2	
Electric & Electronic Equipment	247	
Transportation Equipment	0	
Other Manufacturing	124	
Wholesale Trade		177
Banking		321
Finance/Insurance/Real Estate		(1)
Services		60
Other Industries		67
TOTAL ALL INDUSTRIES		2,374

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (at 1985 prices)[2]	44,161	51,582	57,529
Real GDP Growth (percent)[3]	10.1	10.1	7.6
GDP (at current prices)[2]	57,005	68,967	79,678

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
GDP by Sector (1985 prices):			
Agriculture	97.5	109.4	119.8
Energy and Water	895.7	1,036.0	1150.2
Manufacturing	12,158.6	14,561.2	16,703.0
Construction	2,988.9	3,669.9	3,903.0
Rents	N/A	N/A	N/A
Commerce	7,856.8	9,093.6	10,116.2
Transport/Communications	6,377.8	7,494.4	8,640.4
Financial/Business Services	11,861.1	13,710.5	15,633.2
Other Services	4,514.2	5,070.1	5,671.8
Net Exports of Goods & Svcs.	5,794.4	12,731.5	17,572.8
Real per Capita GDP ('85 BPS—US$)	13,800	16,119	17,977
Labor Force (000s)	1,635.7	1,693.1	1,732.0
Unemployment Rate (percent)	2.7	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.5	14.4	14.3
Base Interest Rate[4]	5.3	6.5	6.4
Personal Savings Rate	1.6	2.9	2.9
Retail Inflation	5.2	−2.1	0.2
Consumer Price Index	2.3	3.1	2.3
Exchange Rate (SD/US$, annual avg)	1.62	1.53	1.42
Balance of Payments and Trade:			
Total Exports (FOB)[5]	73,749	96,481	111,151
Exports to U.S.	13,050	15,657	16,781
Total Imports (CIF)[5]	84,940	102,420	116,713
Imports from U.S.	11,676	13,022	13,936
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	7.4	3.2	N/A
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and FOREX Reserves	48,066	56,030	65,456
Trade Balance[5]	−11,191	−5,939.1	−5,562.2
Balance with U.S.[5]	1,374.1	2,635.0	2,845.4

[1] 1995 Figures are estimates based on part year data.
[2] GDP at factor cost.
[3] Percentage Changes calculated in local currency.
[4] Figures are actual, average annual interest rates, not changes in them.
[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 an average annual rate of seven percent; 1994's economic growth rate was 10.1 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 and investment 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 ($56.0 billion in 1994) 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 50 percent of GDP.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. There are no controls on capital movements.The MAS maintains a strong currency to check inflation, particularly imported inflation, given Singapore's extreme exposure to international trade. Although inflation is moderate by international standards (3.1 percent based on 1994 C.P.I. numbers and 2.3 percent so far in 1995), an acute labor shortage and rising property values have intensified inflationary pressures.

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, including incentives to foreign investment) have attracted about 1,000 U.S. companies to Singapore, with cumulative investments of $12 billion in 1994. The U.S. is Singapore's second largest trading partner, accounting for 17 percent of total trade in 1994. U.S. imports to Singapore in 1994 were $13.0 billion and Singapore's exports to the U.S. were $15.7 billion.

2. Exchange Rate Policies

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 22.9 percent against the U.S. dollar from 1989 to 1994. In 1994 the Singapore dollar strengthened 10 percent against the U.S. dollar. This has not seriously 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 tenth largest customer for U.S. products in 1994. 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 three 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 use. 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 to their efficient business operations and profitability. Investment policies are direct and designed to benefit both investors and Singapore. 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 $3.2 million at the end of 1994. 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. 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 procurements are 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. No new banking licenses for local retail banking have been issued for more than two

decades (although Singapore allows the establishment of offshore banking) because the Monetary Authority considers Singapore over-banked. Foreign banks hold over half the retail licenses, but hold less than half of total assets and operate with much lower profit margins. U.S. banks hold only three out of 35 full 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 reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 58 direct insurance licenses.

Liberalization of the telecommunications sector began in 1989. Singapore Telecom's (ST) monopoly to provide wireline domestic and international telecommunications facilities and services will not end until 2007. There are six wireless operators licensed to provide voice, data and paging services. Provision of value-added services has been liberalized, but suppliers must operate using ST's monopoly facilities. Foreign investment in basic telecommunications facilities and services is limited at 49 percent. Singapore Telecom is partially privatized, with a majority of shares controlled by the government. Singapore Telecom is an active overseas investor, with over $1 billion in equity interests in basic telecom operators in Europe, the United States and other APEC economies.

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

Patent Law: Singapore's 1994 Patent Act is not fully TRIPS consistent; chief areas of concern are in compulsory licensing provisions. In April 1995, Singapore notified the United States of its intent to amend its patent law to make it fully consistent with the TRIPS agreement by the end of 1995; such amendments were subsequently introduced in Parliament, and were expected to be enacted by December 1995.

Copyrights: As a result of stepped up enforcement, copyright infringement in the computer and software areas was significantly reduced in 1994. While the Government of Singapore continues to take an active stance in protection of computer software in Singapore, there was an upsurge of pirated CD ROMs from China in the first half of 1995.Industry and government are working to close off the increase in illicit software. In response to motion picture and phonographic industry requests that the Singapore government do more to stem the importation and transshipment of pirated videos and CD's, Singapore's Board of Censors instituted additional procedures to screen for pirated materials and make it easier to get convictions for transgressors. In a recently completed civil suit brought by the International Federation of the Phonographic Industry, Singapore's High Court ordered a local distributor of pirated compact discs to pay $673,000 in damages, the largest penalty ever in Singapore for copyright infringement. Singapore needs to amend its copyright law to make it fully consistent with the TRIPs agreement.

Estimated losses to the U.S. due to compulsory licensing provisions of the patent law totaled approximately $3 million in 1994. Software piracy losses were estimated by U.S. industry to be $32.2 million in 1993. We have no industry estimates for this year.

8. Worker Rights

a. *The Right of Association.*—Article 14 of the Singapore's constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds, impose restrictions. The right of association is delimited by the Societies Act and labor and education laws and regulations. In practice, communist labor unions are not permitted. Singa-

pore's labor force numbered 1.69 million in 1994, with some 234,000 workers organized into 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.

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

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

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

e. *Acceptable Conditions 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.

f. *Rights in Sectors With U.S. Investment.*—U.S. firms have substantial investments in several sectors of the economy, including petroleum, chemicals and related products, electric and electronic equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors. The growing labor shortage has forced employers 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 workers, are generally paid less than Singaporeans.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,127
Total Manufacturing		5,316
Food & Kindred Products	112	
Chemicals and Allied Products	122	
Metals, Primary & Fabricated	176	
Machinery, except Electrical	2,556	
Electric & Electronic Equipment	2,099	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		1,638
Banking		489
Finance/Insurance/Real Estate		690
Services		514
Other Industries		197
TOTAL ALL INDUSTRIES		10,972

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1991 prices)	206.9	219.9	233.9
Real GDP Growth (percent)	6.3	6.5	6.6
GDP (at current prices)	222.6	241.0	261.7
GDP by Sector:			
Agriculture	8.2	8.6	9.4
Energy/Water	6.0	6.4	6.8
Mining/Quarrying	1.2	0.8	0.8
Manufacturing	67.8	69.9	74.2
Construction	11.7	12.8	13.8
Commercial Services	33.7	37.0	41.3
Transport/Communications	14.2	15.8	17.2
Financial Services	43.0	50.2	55.1
Government/Other Services	36.8	39.5	43.1
Net Exports of Goods & Services	4.2	4.6	4.1
Real Per Capita GDP (US$)	10,677	11,457	12,322
Labor Force (000s)	8,874	9,081	9,269
Unemployment Rate (percent)	1.5	1.6	1.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	15.1	13.0	9.0
Base Interest Rate[2]	7.9	7.6	7.3
Personal Savings Rate[3]	−1.6	−2.9	−4.5
Retail Inflation	2.9	4.1	3.9
Wholesale Inflation[4]	2.5	2.2	7.1
Consumer Price Index (1991 Base)	107.54	111.94	116.32
Exchange Rate (US$/NT$):[4]			
Official	0.03787	0.03785	0.03792
Unofficial	0.03779	0.03792	0.03795
Balance of Payments and Trade:			
Total Exports (FOB)[5]	85.1	93.0	112.9
Exports to U.S.[6]	25.1	26.7	29.1
Total Imports (CIF)[6]	77.1	85.3	106.2
Imports from U.S.[6]	16.2	17.0	20.0
Aid from U.S.[7]	34.2	26.5	17.0
Aid from Other Countries	0	0	0
External Public Debt	0.1	0.1	0.1
Debt Service Payments (paid)	1.8	1.9	1.8
Gold and FOREX Reserves	89.3	98.3	99.0
Trade Balance	8.0	7.7	6.7
Trade Balance with U.S.[8]	8.9	9.7	9.1

[1] 1995 figures are estimates based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1995.
[2] Yearly average of the prime rate listed by the Bank of Taiwan.
[3] Nominal personal savings rates: (1993) 16.4 percent, (1994) 15.7 percent, (1995) 15 percent.
[4] 1995 increase reflects increased cost of parts and components from Japan due to yen appreciation.
[5] Average of figures at the end of each month.
[6] Taiwan Ministry of Finance figures for merchandise trade.
[7] Outstanding debt owed. Aid disbursements stopped in 1968.
[8] Figures are provided by the U.S. Department of Commerce, and reflect calculation of U.S. imports as FAS (free along side) and imports as customs value, as opposed to Taiwanese exports measured as FOB and imports on a CIF basis, which would result in an understated U.S. deficit.

1. General Policy Framework

Over the past four decades, Taiwan has achieved annual economic growth averaging nine percent. Real gross domestic product (GDP) increased 6.5 percent in 1994, and is expected to grow by 6.6 percent in 1995. Per capita GDP was $11,457 in 1994. As of September 1995, Taiwan held foreign exchange reserves of about $93

billion, more than any country except Japan. Prices rose 4.1 percent in 1994 and are expected to rise 3.9 percent in 1995.

In recent years, appreciation of the New Taiwan Dollar (NTD) and rising labor and land costs have led many manufacturers of labor intensive products 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. Exports account for 43.5 percent of GDP.

Falling official savings and growing public expenditures have caused domestic public debt to increase steadily. The local authorities now rely more on domestic bonds and bank loans to finance major expenditures. Outstanding public debt measured about 19 percent of GDP for Taiwan's 1996 fiscal year (July 1, 1995 to June 30, 1996). The central government's deficit measures about four percent of GDP. Defense spending still accounts for the largest share of public expenditures but is falling in relative terms. The greatest pressure on the budget now comes from growing demands for social welfare spending, including a new national health insurance plan initiated in 1995.

Taiwan wishes to accede to the World Trade Organization (WTO) in the near future. It also aims to develop into an Asia pacific regional operations center. To meet both these goals, Taiwan has begun to take unilateral steps to liberalize its trade and investment regime.

2. Exchange Rate Policies

Taiwan has a floating exchange rate system in which bankers set rates independently of the authorities. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. Fourteen foreign banks are engaged in foreign exchange business. The number of private domestic banks permitted to deal in foreign exchange is steadily increasing.

The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair normal market adjustments. Two tools the CBC uses to influence the foreign exchange market are restrictions on banks' overbought and oversold positions and limits on banks' foreign liabilities.The Central Bank of China also limits the use of derivative products denominated in New Taiwan dollars. Trade-related funds flow freely into and out of Taiwan. Although Taiwan relaxed some restrictions on capital account transactions in 1995, most notably restrictions on portfolio investments, it still maintains a range of controls on inward and outward capital flows that limit demand for the New Taiwan Dollar and reduce upward pressures on its value.

3. Structural Policies

Several state-owned enterprises have been partially privatized in the past two years. Large state-run enterprises nonetheless account for nearly one-third of the economy, including 16 percent of industrial production. The authorities have set up a Fair Trade Commission to thwart noncompetitive pricing, but state-run firms were able to apply on a case-by-case basis for five-year exemptions. These will expire in 1996.

In March 1994 and July 1995, the Taiwan authorities cut tariffs on many industrial products at the behest of the United States. Taiwan's average nominal tariff rate is 8.6 percent; the trade-weighted rate is 4.7 percent. Current high tariffs and pricing structures on some agricultural products, in particular, pose obstacles for U.S. exports. Taiwan bans imports of some products such as peanuts and some poultry and pork products. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages.

4. Debt Management Policies

Taiwan is virtually free of foreign debt. At the end of December 1994, Taiwan's long term outstanding external public debt totaled $360 million, compared to gold and foreign exchange reserves of about $100 billion. Taiwan's external public debt service payment in 1994 totaled $98 million, only one-tenth of one percent of exports of goods and services.

Foreign loans committed by the Taiwan authorities exceed $1 billion. Taiwan has offered low-interest loans to the Philippines, Eastern Europe, Vietnam, and Latin America, mostly to build industrial zones. Taiwan also contributes to the Asian Development Bank (ADB), the only multilateral development bank in which it has membership. In addition, the ADB has floated bonds in Taiwan.

5. Significant Barriers to U.S. Exports

Taiwan's WTO accession will open markets for some U.S. goods and services, but will also remove area restrictions which favored some U.S. imports over those from other nations.

On July 1, 1994, Taiwan implemented a negative import list; more than 85 percent of all import categories are now exempt from controls. Some 828 categories require approval from relevant authorities. Another 425 require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports are banned for 239 categories, including ammunition and some agricultural products.

Services Barriers:

Financial: In the past two years, Taiwan has removed many discriminatory limits on foreign financial services firms, including those limits on branching, NTD deposits and scope of business. Taiwan limits 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. Furthermore, the promotion and sale of off-shore mutual funds is heavily restricted in Taiwan.

Legal: Foreign firms may not operate legal practices in Taiwan but may set up consulting firms or work with local law firms. Qualified foreign attorneys can, as consultants to Taiwan law firms, provide legal advice to their employers only.

Insurance: Taiwan removed its prohibition against mutual insurance companies in July 1995; as of November 1995, however, it had not issued implementing regulations. Other restrictions limiting market entry for insurance companies were relaxed in 1995, including lengthy qualifying periods.

Transportation: Taiwan does not permit foreign ocean or air freight carriers to truck containers to their ultimate destinations on the island. A new law passed in August 1995aims to offer national treatment to foreign shipping companies. Actual provision of national treatment, however, will in part depend on implementing regulations. As of November 1995, these had not been promulgated.

Telecommunications: New telecommunications legislation enacted in January 1996 allows foreign investors up to 20 percent share in the provision of cellular, paging, trunking radio, wireless data and other Type One services. The new legislation allows 100 percent foreign-owned firms to provide basic or Type Two value added network (VAN) services, i.e., voice services, information storage and retrieval, information processing, remote transactions and electronic data interchange.

Motion Pictures: Taiwan restricts the import of foreign film prints to 28 per title (up from 24 as of June 1995). No more than 11 theaters in any municipality may show the same foreign film simultaneously.

Standards, Testing, Labeling, and Certification: Taiwan has committed to join the WTO code on Technical Barriers to Trade as part of its WTO accession. Existing requirements for agricultural goods particularly affect U.S. exports. These include a lack of an internationally-accepted set of pesticide tolerance levels for imported fruits and vegetables, stringent microbiological and chemical testing of imported food products, and standards on preservatives for soft drinks.Imported agricultural goods are routinely tested while local agricultural products usually are not. Industrial products such as air conditioning and refrigeration equipment, electric hand tools, and synthetic rubber gloves must undergo redundant and unnecessary testing requirements, which include destructive testing of samples.

Investment Barriers: In August 1995, Taiwan reduced by 25 percent the number of industries in which foreign investment is prohibited, and reduced the number requiring government approval. Industries in which restrictions on foreign investment have been reduced or removed include housing construction, real estate, travel services and petroleum retail sales. However, several sectors which have been liberalized, such as power generation, restrict the share of foreign ownership. Foreign investment is still prohibited in industries such as agriculture, basic telecommunications, broadcasting, cigarette manufacturing and liquor distilling.

Equity participation is limited in several industries, including shipping, mining and securities trading. Local content requirements remain in the automobile and motorcycle industries. There are still restrictions on the number of foreign administrative personnel in foreign-funded firms.Foreign individuals may not purchase shares on Taiwan's stock market. Taiwan replaced the $7.5 billion ceiling for all foreign institutional investors in the Taiwan Stock Exchange with a ceiling of 12 percent of total market capitalization in February 1995. In September 1995, Taiwan allowed foreign institutional investors to exceed the $200 million limit on institutional stock investors if most of their funds were invested in equities. In September, the foreign ownership limit in a listed company was raised to 7.5 percent per investor and to 15 percent for all foreign investors. 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.

Procurement Practices: Taiwan has committed to adhere to the WTO Agreement on Government Procurement as part of its WTO accession process. Currently, public procurement which exceeds NTD 50 million ($1.9 million U.S.) should go through the state-owned Central Trust of China (CTC). However, in practice CTC does not do most procurement actions. Each agency has its own set of procurement regulations and practices, making the process cumbersome, confusing, and lacking in transparency. Taiwan commissioning agencies frequently impose onerous terms and conditions on contracts.Some agencies, such as the Environmental Protection Agency, require foreign companies to partner with Taiwan firms as a prequalifying condition on certain tenders. Short lead times on major tenders also 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.

6. Export Subsidies Policies

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

7. Protection Of U.S. Intellectual Property

Taiwan's protection of Intellectual Property Rights (IPR) has improved substantially in the past few years. In 1995, Taiwan implemented an Integrated Circuit Layout Protection Law and Personal Data Protection Law. Together with legislation now under consideration to protect trade secrets, these laws give Taiwan an IPR legal structure largely consistent with the WTO Agreement On Trade-Related Aspects Of Intellectual Property Rights (TRIPS).

Improved enforcement efforts, including the establishment of computerized export monitoring systems for computer software and trademark goods, have reduced piracy.Inconsistent decisions by Taiwan's trademark and patent examiners highlight the need for better training and more standardized examination and registration procedures. New examination procedures were implemented July 1995. Taiwan was on the 1995 Special 301 Watch List. Taiwan is not a member of any major multilateral intellectual property conventions.Taiwan plans to set up an intellectual property rights bureau.

Patents: The revised patent law limits compulsory licensing and replaces 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 trademark goods should help reduce infringement. Many U.S. companies believe penalties for infringers remain weak.

Copyrights: Export of counterfeit copyrighted goods has dropped markedly. The unauthorized copying of computer software and the manufacture of counterfeit video games remain problems. Taiwan has not adopted 50-year retroactive copyright protection as mandated by TRIPs, currently only protecting copyrights dating from 1965. Taiwan's Executive Yuan (EY) is further revising Taiwan's copyright law in 1996 to conform to TRIPs requirements. The EY is expected to include a provision in the revised law stating that Taiwan will abide by the TRIPs 50-year requirement upon its accession to the WTO.

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

8. Worker Rights

a. *The Right of Association.*—As democratization has continued, the number of independent labor organizations in Taiwan has increased. However, because many of these organizations are not registered under Taiwan's Labor Union Law (LUL), they lack a firm legal footing and the right to demand collective bargaining. The LUL allows all workers except for civil servants, teachers, and defense industry workers to organize trade unions, although a recent court ruling requires amend-

ment of the law within two years to permit workers in these categories to form unions. The LUL forbids, however, formation of competing trade unions and confederations.

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. Under these laws, employers may not refuse employment to, dismiss, or otherwise unfairly treat workers on the basis of their union membership or participation in mediation or arbitration. At times, however, employers have ignored these laws without suffering any legal action. 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 Compulsory Labor.*—The Labor Standards Law (LSL) prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years.The only reported cases of forced labor have involved prostitution.

d. *Minimum Age for Employment of Children.*—The LSL stipulates that the minimum age for employment is 15 years, after compulsory education ends. Child labor is rare in Taiwan.

e. *Acceptable Conditions of Work.*—The LSL limits the work week to 48 hours (8 hours per day, six days per week). The LSL also has provisions for leave, overtime pay, retirement pay, and minimum wages. In August 1995, the authorities raised the minimum monthly wage by 6.2 percent to $540. The 1994 average monthly wage in the manufacturing sector was $1160. Employers typically provide additional payments and benefits, including a portion of National Health Insurance and labor insurance premiums, the distribution of labor welfare funds, and meal and transportation allowances.

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, worker rights do not vary significantly by industrial sector. Working conditions, however, tend to be relatively better in the higher-tech information and electronics industries and relatively worse in the lower-tech footwear and sporting goods industries.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		2,459
Food & Kindred Products	96	
Chemicals and Allied Products	894	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	280	
Electric & Electronic Equipment	959	
Transportation Equipment	(1)	
Other Manufacturing	97	
Wholesale Trade		528
Banking		435
Finance/Insurance/Real Estate		168
Services		160
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,882

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	97,581	106,829	117,464
Real GDP Growth (percent)[3]	8.3	8.7	8.6
GDP at Current Prices[2]	124,957	143,177	165,008
GDP by Sector:			
Agriculture	12,743	14,674	15,362
Energy and Water	2,995	3,337	N/A
Manufacturing	35,282	40,356	45,722
Construction	8,786	10,656	12,019
Rents	3,209	3,531	N/A
Financial Services	9,151	11,372	N/A
Other Service	52,791	54,181	N/A
Government/Health/Education	4,648	5,067	N/A
Net Exports of Goods & Services	−6,535	−8,291	N/A
Real Per Capita GDP (US$)	2,154	2,439	2,759
Labor Force (000s)	33,619	34,878	34,231
Unemployment Rate (percent)	3.7	3.4	3.1
Money and Prices (annual percentage growth):			
Money Supply (M2)[6]	18.4	12.9	19.1
Base Interest Rate[4]	10.5	11.75	13.62
Personal Savings Rate	4.4	3.7	N/A
Retail Inflation[7]	3.4	5.1	5.4
Wholesale Inflation	−0.4	3.9	N/A
Consumer Price Index	113.7	119.5	N/A
Exchange Rates (B/US$) average:.			
Official[7]	25.32	25.15	24.84
Parallel	N/A/	N/A/	N/A/
Balance of Payments and Trade:			
Total exports, (FOB)[5]	37,159	45,233	54,750
Exports to U.S.[5]	7,987	9,507	9,803
Total Imports, (CIF)[5]	46,242	54,444	65,620
Imports from U.S.[5]	5,373	6,444	6,739
AID from U.S. (FY–DA obligation)	47.5	34.6	31.2
AID from other Countries (FY)	N/A	N/A	N/A
External Public Debt (LT)[8]	14,171	15,534	17,478
Debt service payments (paid)[8]	5,180	6,429	1,894
Gold & Foreign Exchange Reserves[6]	23,980	30,279	35,900
Trade Balance[5]	9,083	9,211	10,870
Balance with U.S.[5]	2,614	3,063	3,064

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

[1] 1995 figures are all estimates.
[2] GDP at factor cost.
[3] Percentage changes in baht terms.
[4] Figures are actual and average interest rate.
[5] Merchandise trade.
[6] As of Sept. 1995.
[7] Jan.-Sept. 1995.
[8] As of June 1995.

1. General Policy Framework

Thailand's economic development policies are based on a competitive, export-oriented, free market philosophy. Over the last decade, Thailand's economy has undergone a substantial transition from one based primarily on agriculture to a more open and broadly based one with a large manufacturing sector. Although the majority of the Thai labor force (54.6 percent in 1995) is still employed in agricultural production, this sector now accounts for only 11 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.

The Banharn government which came into office following democratic elections in July 1995 has continued to pursue the major economic policies of previous governments. As did its predecessor, the current government has stressed addressing imbalances created through rapid industrialization by emphasizing rural development and reducing disparities in the distribution of income.

Thailand's gross domestic product grew at an average annual rate of over eight percent during the last decade, and averaged over ten percent between 1988 and 1994. Following a modest slow down to 7.9 percent in 1992, GDP growth picked up in 1993 to 8.3 percent, and rose further to 8.7 percent in 1994. Growth in 1995 is currently estimated at 8.6 percent.Barring unexpected domestic or external shocks, Thailand should maintain solid economic growth in the seven to eight percent range for the foreseeable future.

Thai exports grew at 21.7 percent in 1994 to exceed $45 billion. This was a landmark for Thailand as exports exceeded one trillion baht for the first time. Import growth was also strong at 17.7 percent, rising to $54.4 billion. Both imports and exports have continued their strong growth in 1995, with exports projected to increase by 21.6 percent and imports by 21.2 percent. Thailand's merchandise trade deficit grew to $9.2 billion in 1994 and is expected to top $10.7 billion in 1995.

The country's current account deficit rose in 1994 to $8.5 billion, equivalent to 5.9 percent of GDP. The current account deficit has continued to widen and is projected to top $10 billion in 1995, equivalent to 6.1 percent of GDP. The persistence of the deficit, as well as its rapid growth, has aroused some concern among Thai policymakers. While many officials argue that a substantial portion of Thailand's trade deficit is accounted for by imports of capital goods, others note that imports of consumer goods have also been increasing rapidly.

Net capital movement into Thailand was $14.1 billion in 1994, mostly as a result of strong private capital inflows, predominantly bank financing ($13.2 billion). Net foreign direct investment fell from $2 billion in 1992 to $1.7 billion in 1993 and $595 million in 1994, largely as the result of a slowdown of investment in this category from Japan; a great deal of investment from Japan now enters Thailand via the large bank inflows noted above. Foreign direct investment has increased slightly in 1995. During the first eight months of the year, the latest period for which statistics are currently available, foreign direct investment reached $588.7 million.

Overall, the country recorded a balance of payments surplus in 1994 of $4.2 billion. Total debt outstanding was $54.1 billion, $15.8 of which was public debt. The total debt service ratio stood at 10.6 percent. Official reserves stood at $35.9 billion in October 1995, equivalent to about seven months of imports.

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. At the same time, much of the growth has been concentrated in the greater Bangkok area, which accounts for more than half of Thailand's total GDP. Little progress has been made in addressing the problems of wide disparities of income between Bangkok and the rest of the country.

A drought in the 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 and 1995, however, has refilled reservoirs to capacity. Severe flooding in the north of Thailand during August 1994 and in both the north and central plains region in 1995 destroyed some crops. These growing conditions, strong export demand and changes in Thai policies which reduced production have led to increased prices for agricultural goods in 1995.

The average amount of schooling for the Thai workforce is less than six years, the lowest in ASEAN. The level of education of the workforce 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 expanding mandatory years of schooling from six to nine. Wage gains continue to outpace substantially the growth of the consumer price index.

For the past eight 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 1994 the government's overall cash surplus reached $2.6 billion, 1.8 percent of GDP.

2. Exchange Rate Policies

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 about three-quarters 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 covering reduction of restrictions on international transactions. Commercial banks were given permission to process all foreign exchange transactions and substantial increases were allowed in ceilings on money transfers not requiring Bank of Thailand preapproval and on spending by Thai tourists and businessmen abroad. In April 1991 and May 1992 additional rounds of foreign exchange liberalization substantially simplified foreign exchange reporting requirements and allowed banks to offer foreign currency accounts to individuals and businesses. The central bank also raised 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, and an ASEAN summit scheduled to take place in Bangkok in December 1995 may advance the implementation schedule of AFTA. 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, 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.

Thai financial authorities have taken additional steps to open up the commercial banking system. Foreign exchange controls have been liberalized and the government has lifted the ceiling on deposit rates. It is gradually reducing the amount of government bonds that commercial banks are required to hold to satisfy reserve and other requirements. In May 1992 the central bank authorized banks and finance and security companies to engage in additional activities and banks are now able to underwrite securities. In March 1992 the Finance Ministry licensed seven new mutual fund companies, ending a 17 year monopoly. Foreign banks are allowed to participate in the Bangkok International Banking Facility (BIBF), created to de-

velop an offshore banking industry in Thailand. Again, as part of its commitment in the GATS negotiations, Thailand will allow from five to seven BIBFs to become full branches in 1996.

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, 28.9 percent in 1994 and 27.1 percent through September 1995. The prime rate has ranged from 10.5 to 14 percent since 1991 and currently stands at 13.75 per cent. In the same period, rates for one-year fixed deposits have ranged from 7.0 to 11.0 percent, where they stood as of September 1995. With the disparity between relatively high domestic rates and declining international lending rates, Thai private sector external borrowing has grown rapidly since 1993 and, as noted above, net capital inflows have increased greatly.

5. Significant Barriers to U.S. Exports

In order to comply with its Uruguay Round commitments, the Thai government introduced substantial reductions in its duty rates effective January 1, 1995. With few exceptions (automobiles, alcoholic beverages, certain unprocessed agricultural products) import duties currently range from zero to 30 percent ad valorem. There are presently six classifications of import duties: (1) zero duties on selected equipment (e.g. medical) for public use, (2) zero to five percent on raw materials; (3) 10 percent for intermediate products; (4) 20 percent for finished products; (5) 30 percent for special production items; and, (6) items offered special protection (e.g. 68.5 percent for luxury sedans). In addition, the Thai government continues to levy other specific taxes of an equivalent or higher rate.

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 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.Thirty-nine food products must be registered as "specific" controlled food items" at an additional cost of 5,000 baht ($200) per item. Registration of pharmaceutical imports costs 2000 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 about six 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. Thai authorities have approved a limited number of foreign branches to operate in the offshore market. No person or group of related persons, whether Thai or foreign, may hold more than five percent of the shares of each Thai bank. Larger holdings established before these regulations took effect cannot be increased, but do not have to be reduced.

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). In 1994, 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.

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 in December 1994. Thailand maintains several programs, notified to the GATT in July 1995, which benefit manufactured products or processed agricultural products and may constitute export subsidies. These programs include subsidized credit on some government-to-government sales of Thai rice, preferential financing for exporters in the form of packing credits; tax certificates for rebates of 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.

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. Following the passage of a revised copyright law in November 1994, which generally brings the Thai copyright regime into conformity with international standards of the draft Uruguay Round agreement (TRIPs) and the Berne Convention (Paris Act) the U.S. downgraded Thailand from "priority watch list" to "watch list" status. 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, in July 1995, the U.S. also restored a number of GSP benefits which had been denied to Thailand under the provisions of Special 301. A number of additional bills designed to bring Thailand into full compliance with TRIPS requirements, including new patent legislation and improvements to the copyright act, are currently being drafted.

Efforts on the part of the Thai government to enforce existing copyright laws have also improved since 1991.Enforcement activities against intellectual property infringement were centralized to reduce copyright piracy, with raids by police expanding to cover computer software. U.S. industry associations have been instrumental in securing more energetic enforcement. Nonetheless, copyright piracy of audio and video tapes and computer software remains widespread. The government has publicly stated its commitment to continuing and vigorous enforcement. The Ministry of Commerce set up a special Intellectual Property Department in 1992 which is active in coordinating both the legal structure and enforcement efforts against all forms of violation of intellectual property.

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 a bill to establish entirely separate intellectual property courts, with judges trained in intellectual property matters, is currently pending in Parliament. 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.

8. Worker Rights

a. *The Right of Association.*—The Labor Relations Act of 1975, Thailand's basic labor law, guarantees to workers in the private sector most internationally recognized worker rights, including freedom of association. Workers have the right to form and join unions of their own choosing, to decide on their constitutions and rules and to formulate their policies without outside interference. Once a union is established, the law protects members from discrimination 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 government has promised to amend the SELRA and restore these rights. The new legislation has been approved by the Cabinet, passed parliamentary scrutiny, and is set for final passage in the March 1996 legislative session.

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 nearly 900 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. Actual collective bargaining is rare, though informal employee/employer bargaining does occur in some 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. Thailand, however, has been subject of ILO action under Convention 29 (Forced Labor) for several years because of the persistence of child prostitution. Recently, the government has stepped up enforcement of laws against child prostitution and is cooperating in ILO programs to deal with the problem.

d. *Minimum Age for Employment of Children.*—The minimum employment age in Thailand is 13. Thailand restricts the employment of children between 13 and 15 to "light work" in 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. Nevertheless, enforcement is not rigorous and some illegal employment of children continues, mostly in the informal sector.

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 those gaps by increasing the number of safety inspectors and by increasing the penalties for violations. Eight-hour days are the norm and wages and benefits in export industries usually exceed the legal minimum. However, in Thailand's large informal sector, wage, health and safety standards are often ignored. Most industries have a legally mandated 48-hour maximum work week. The major exception is commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to no more than 48 hours per week.

f. *Rights in Sectors With U.S. Investment.*—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 and Japanese 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. However, compliance with worker rights standards is weak among some subcontractors which supply larger, more reputable firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,185
Total Manufacturing		1,341
Food & Kindred Products	50	
Chemicals and Allied Products	290	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	358	
Transportation Equipment	(2)	
Other Manufacturing	105	
Wholesale Trade		344
Banking		365
Finance/Insurance/Real Estate		63
Services		70
Other Industries		394
TOTAL ALL INDUSTRIES		3,762

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

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

EUROPE AND NORTH AMERICA

THE EUROPEAN UNION

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1990 prices)[1]	6,831.5	7,021.0	N/A
Real GDP Growth (percent)	−0.6	2.7	3.0
GDP (at current prices)[1]	6,897.8	7,312.8	N/A
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Construction	N/A	N/A	N/A
Rents	N/A	N/A	N/A
Financial Services	N/A	N/A	N/A
Other Services	N/A	N/A	N/A
Government, Health and Education	N/A	N/A	N/A
Net Exports of Goods and Services	N/A	N/A	N/A
Real per capita GDP[2]	18,563.8	19,078.8	N/A
Labor Force[3]	164.3	164.5	165.2
Unemployment Rate (percent)	10.6	11.1	10.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.6	2.9	N/A
Base Interest Rate (percent)[4]	8.6	6.7	7.3
Personal Saving Rate[5]	20.9	21.2	21.5
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	3.4	3.1	N/A
Exchange Rate (ECU/US$—annual average)	0.854	0.840	0.769
Balance of Payments and Trade:			
Total Exports FOB	563.4	641.3	N/A
Exports to U.S.	98.1	113.1	N/A
Total Imports	583.6	642.5	N/A
Imports from U.S.	101.9	110.0	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[5]	66.1	68.8	72.6
Debt Service Payments	N/A	N/A	N/A
Gold and FOREX Reserves	N/A	N/A	N/A
Trade Balance	−20.6	−1.2	N/A
Balance with U.S.	−3.8	3.1	N/A

[1] EU 15.
[2] U.S. dollars.
[3] Millions.
[4] Nominal short-term interest rate.
[5] Percent of GDP, EU 12.

1. General Policy Framework

The European Union (EU) is the world's largest economy and our largest trade and investment partner; the New Transatlantic Agenda concluded by President Clinton and his EU counterparts at the December 1995 US-EU Summit in Madrid will further expand and deepen our relationship (see Section 5 below).

The EU exercises supranational authority over certain policies of 15 highly-developed Western European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. (Austria, Finland and Sweden joined on Jan. 1, 1995.) It is unique in that the member states have ceded to it increasing authority over their domestic and external policies, especially with the 1986 "Single Market" and the 1993 "Maastricht" amendments to the 1958 Treaty of Rome. Individual member-state policies, however, may still present problems for U.S. trade; please refer also to the relevant country-specific chapters.

The EU's authority is clearest in the economic realm. A long-standing customs union, the EU—with the ratification by the EU and its 15 member states of the Uruguay Round agreements—now represents the collective interest of the member states in the WTO's Committee on Trade in Goods. (The member states retain some authority over intellectual property and services issues, and both the EU and the member states are represented in the TRIPS and GATS Committees.) Internally, the EU's 1992 "Single Market" program guarantees the free movement of goods, services, capital and people among the member states; many of the program's measures were designed toward harmonizing member states' domestic laws in order to eliminate non-tariff barriers to these flows. In addition, the European Commission enforces Treaty provisions against anti-competitive practices throughout the EU. More recently, the Maastricht Treaty mandated an "economic and monetary union" among the member states no later than January 1, 1999 (Denmark and the United Kingdom have "opt-out" clauses) and gave the EU a role in policy formulation concerning investment from third countries, although member state barriers to such investment existing on Dec. 31, 1993 continue in force until superseded by EU law.

The EU itself currently has only very limited fiscal and no monetary policy powers. The Union's budget is limited to less than 1.3 percent of EU GDP; by law, expenditures must be balanced by revenues from the member states. (The EU has no independent taxing authority.) Expenditures, at less than 100 billion dollars, are divided generally among agricultural support (50 percent), "structural" policies to promote growth in poorer regions (35 percent), other internal policies (five percent), external assistance (five percent) and administrative and miscellaneous (five percent).

The EU's indirect influence over member-state fiscal and monetary policy, however, is considerable, and growing in the run-up to economic and monetary union. The EU now adopts annual "Guidelines" on member-state economic policy. And the member states are striving to achieve the "convergence criteria" for monetary union: deficits of three percent of GDP; gross national debt of 60 percent of GDP; inflation and interest rate levels no more than one and a half percentage points above the average of the three lowest rates among the member states, and two years of relative exchange rate stability. These efforts to restrain fiscal policy may have dampened to some extent aggregate demand in the EU, and thus the demand for U.S. products, although GDP is still expected to grow about 2.6 percent in 1996.

In response to the 1993 economic downturn in 1993 and persistent high unemployment, the EU member states adopted a "Growth Initiative" and the "White Paper on Growth, Competitiveness and Employment," which expanded the European Investment Bank's ability to provide loans and guarantees to member states; advocated huge investments in trans-European transport, energy and telecommunications networks; and suggested measures to reduce non-wage labor costs and otherwise promote labor market flexibility. If successful, these and other long-term measures—including the Single Market and Economic and Monetary Union—should generally promote European growth and the demand for US goods.

2. Exchange Rate Policies

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

The aim of the EMS and ERM is to promote monetary, price, and exchange rate stability in Europe by limiting the fluctuations of participating currencies within a

certain range around bilateral central parity rates. Pressures in foreign exchange markets in September 1992 led the United Kingdom and Italy to suspend their participation in the ERM, and compelled adjustment of the parities for other currencies in subsequent months. In part to relieve these pressures, on August 2, 1993, the ERM fluctuation band was widened from 2.25 to 15 percent.

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

3. Structural Policies

Single Market: The European Union's "1992" single market was officially inaugurated on January 1, 1993 with the disappearance of most intra-EU border controls on movement of goods, services, capital and people. The legislative program is largely complete, although there are delays in member state implementation of Community rules in national law and national differences in interpretation of those rules. The net effect of the single market exercise has been freer movement, fewer member state regulations for products and service providers to meet, and real consolidation of markets. Some aspects of the program, however, have created problems for U.S. exporters, such as directives on procurement for utilities and on television broadcasting, and conditions for negotiation of mutual recognition agreements on testing and certification of regulated products (all discussed below).

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.

Environmental Measures: Pending environmental measures may also affect the business climate. Among them, evolving EU wastes policy and the EU's ban on exports of hazardous wastes to non-OECD countries (in line with the Basel Convention) may raise operating costs for industries. The European Commission continues to press for a Union-wide CO2 tax. However, member state opposition has limited the Commission to establishing harmonized guidelines for those member states who do wish to implement a national CO2 tax. Debate continues over the packaging directive which was approved in late December 1994 and which assigns certain responsibilities for disposal of packaging to producers and retailers. The Commission is in the process of developing labelling criteria (as called for in the directive), some of which, if implemented, could have a significant impact on trade.

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

As noted previously, the European Union is the largest trade and investment partner of the United States. Two-way trade exceeds 200 billion dollars, and is generally in near balance, while US firms have invested over 200 billion dollars in the EU, 41 percent of total U.S. direct investment abroad.

To build on the U.S.-EU relationship, President Clinton, EU Commission President Santer and Spanish Prime Minister Gonzalez included as part of "The New Transatlantic Agenda" announced during their December 3 Summit Meeting in Madrid a commitment to create a "New Transatlantic Marketplace". The "New Transatlantic Marketplace" is dedicated to the progressive reduction or elimination of barriers hindering the flow of goods, services and capital. In keeping with this initiative, the U.S. and EU will place a high priority on mutual recognition agreements to minimize standard-related problems, greater regulatory cooperation, an "Information Society" initiative, a customs cooperation agreement and other items. The U.S. and EU also will undertake a joint study of other ways to facilitate trade and further reduce or eliminate barriers.

The United States and the EU pledged to complement the "New Transatlantic Marketplace" with initiatives in the WTO aimed at eliminating tariff barriers in the information technology and other sectors, to consider whether to accelerate Uruguay

Round tariff restrictions, and to cooperate in strengthening the multilateral trading system. A Senior-Level Group will report to the subsequent semi-annual Summits on progress toward achieving priorities identified in the New Transatlantic Agenda, which should resolve or help resolve the problems spelled out below.

(a) Manufactured exports

Enlargement: When Austria, Finland and Sweden joined the EU on January 1, 1995, they raised their tariffs on certain products as part of adopting the EU's common external tariff. In accordance with GATT rules, the European Commission has negotiated with the United States and other affected trading partners a package of compensating tariff cuts. The agreement reached with the United States was approved by the European Council of Ministers on December 15. The highest value concessions were in three sectors: semiconductors, agriculture and chemicals.

Standards, testing, labelling and certification: The U.S. Department of Commerce anticipates that products covered under EU legislation and regulations will eventually account for 50 percent of U.S. exports to Europe. A number of problems related to this evolving EU-wide legislative environment have caused concerns to U.S. exporters. These include lags in the drafting of harmonized legislation for regulated areas and inconsistent application and interpretation by member states of the legislation that is in place. While these are not deliberate trade barriers, their existence can impede U.S. exports to the EU.

The EU is implementing a harmonized approach to testing and certification, as well as providing for the mutual recognition of national laboratories accredited to test and certify regulated products. An additional difficulty for U.S. exporters is that only "notified bodies" located in Europe are empowered to grant final product approvals of regulated products. The United States and the EU are negotiating to resolve this through Mutual Recognition Agreements (MRAs). MRAs would permit U.S. authorities to test and certify to European standards prior to export, which could lead to substantially reduced costs for the introduction of American goods into Europe and vice versa. MRAs could cover up to ten sectors including telecom, pharmaceuticals, medical devices, and personal protective equipment. Industry experts estimate that these agreements will affect roughly 40 billion dollars in U.S. exports to Europe. The MRA negotiations have been given an added boost by the U.S.-EU Summit (noted above) and the conclusions of the Transatlantic Business Dialogue held on November 10–11, 1995, between U.S. and European business leaders.

Leghold Traps: Under a regulation adopted in 1991, the EU was slated to ban imports of fur from animals caught in leghold traps beginning January 1, 1996. Were the ban to have gone into effect, this would have caused a major trade dispute with the United States and Canada. The European Commission decided in December 1995 to delay implementation for a year to allow U.S., Canadian and EU experts to work out standards clarifying which traps are acceptable, but it is possible trade may be disrupted nonetheless.

Ecolabelling: The Union's ecolabelling scheme, set up in March 1992, permits a manufacturer to obtain an "ecolabel" for a product when its production and life cycle meet the environmental impact criteria established for that particular product. The United States closely monitors the setting of EU criteria to ensure that they do not disadvantage U.S. producers and thus become de facto trade barriers. Thus far, ecolabel standards in the paper products industry have been the most problematic, because they are based on manufacturing processes not used in North America.

Customs Reclassification: In May 1995 the EU implemented a regulation requiring all the Member States to classify imports of local area network (LAN) equipment as telecommunications rather than computer equipment. As a result, a number of Member States increased the tariff they applied to the product. Similarly, the EU in November 1995 announced that CD-ROM drives would henceforth be classified as multimedia devices rather than computer equipment. This, too, resulted in a higher tariff applying to imports, although the EU has temporarily suspended application of these duties to help European computer manufacturers (there is no European production of CD-ROM drives).

(b) Agriculture

Quotas and import licensing for bananas: On July 1, 1993, the EU implemented a new banana import regime to replace individual Member State rules for banana imports. Elements of the new regime have caused a significant erosion of U.S. companies' share of the EU banana market. A "Framework Agreement," which the EU negotiated with four of the five countries that had challenged the regime in the GATT, did not commit the European Union to reform those aspects of the regime which are most harmful to U.S. banana marketing firms and in fact led to further discrimination against U.S. banana companies in favor of EU firms. After a year

of investigation and informal consultations with the EU failed to achieve a resolution of the issue, in October 1995 the U.S. held formal consultations with the EU under GATT dispute settlement procedures.

Round-up Ready Soybeans: Genetically-modified foods approved as safe in the United States are facing substantial procedural delays in obtaining approval in the European Union. This could have a major impact on U.S. exports of bulk commodities, such as soybeans, which might include the genetically-modified, environmentally "friendly" "Round-up Ready" soybeans. The Commission is currently considering ways to resolve this problem.

Hormone Ban: 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 the U.S. estimated at $97 million a year. In response, in January 1989 the U.S. government 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 in order to examine the implications of the ban, its consequence on trade, and the experience of countries where the use of BST is authorized. The EU has also taken the unusual step of barring individual member state licensing of BST, requiring license approval at the Union level.

Wine Certification and Enological Practices: U.S. wine exports continue to face uncertain market access into the European Union. The U.S. 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 U.S.

Veterinary Regulations: Under the 1992 single market program the EU adopted a large body of legislation designed to harmonize veterinary standards within the Community, including import regulations. The Uruguay Round Agreement on the Application of Sanitary and Phytosanitary Measures requires countries to recognize as equivalent other countries measures which have been demonstrated to provide the appropriate level of protections and to base such limits and evaluations on scientific principles. To this end, the U.S. and the EU have entered into negotiations to facilitate the recognition, where possible, of the equivalency of existing standards. This would allow the U.S. to demonstrate to the EU that U.S. standards provide the EU's appropriate level of sanitary and phytosanitary protection and thus eliminate the need for U.S. exporters to adopt EU methods for achieving those standards.

(c) Services 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 has held GATT consultations with the EU concerning the Directive because the broadcast quotas appear to violate EU member states' obligations under the GATT. Although the U.S. and the EU were unable to resolve their differences over this issue during the Uruguay Round, 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. has reserved its right to take further action and is closely monitoring implementation of these measures.

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 (infrastructure, voice telephony).

Another impediment to trade in telecommunications goods and services is government procurement practices. An intellectual property right protection policy proposed by the European Telecommunications Standards Institute (ETSI) was revised on November 23, 1994 and no longer represents an impediment to trade.

The European Union is in the midst of implementing wide-ranging telecommunications policy reforms and liberalization. The European Commission's proposals for third country access to the market for many of these services is fixed to the treatment agreed in the Negotiations on Basic Telecommunications Services at the WTO. These negotiations are scheduled to conclude on April 30, 1996.

Electricity, third party access: The EU continues to grapple with liberalizing the internal market for electricity. While the Commission has been pressing for liberalization for over three years, member states have been divided between those who insist on protecting state-run monopolies (they fear significant job losses), and those member states who want to liberalize the market (these states hope to boost their industries' competitiveness). Some U.S. firms are concerned that the EU's moves to liberalize the market may be insufficient to provide significant opportunities to justify substantial investments by third parties.

Computer Reservation Services (CRS): U.S. CRS companies have had difficulty cracking the EU market, as each member state market tends to be dominated by the CRS owned by its flag carrier. The EU's 1993 CRS "Code of Conduct" compelled one U.S. CRS firm to establish subsidiaries in virtually every member state, and there are questions whether the Code may be used to establish "charging principles" which could further erode the ability of U.S. firms to gain market share. In addition, German Rail, which is part owner of one of the major EU CRS's, refused to work on an equal footing with U.S. firms, although a recent judgment by German competition authorities may have corrected this.

Ground-handling: Ground-handling services at many member state airports, including Frankfurt, Milan and Athens, are controlled by either the airport and/or the national carrier, to the detriment of U.S. and other airlines, freight carriers, and ground-handling service firms. The EU is considering a directive to liberalize this sector in phases, but the right to conduct certain ground-handling services either for oneself or for others may still be restricted at airports below a certain size. The final directive may also allow for certain airports to be temporarily exempted because of space and capacity reasons.

Postal Services: U.S. express package services such as UPS and Federal Express remain concerned that the prevalence of postal monopolies in many EU countries restricts their market access and subjects them to unequal competitive conditions. Proposals to liberalize many postal services and to otherwise constrain the advantages enjoyed by the national monopolies may not be sufficient to redress fully these problems.

Data privacy: The European Council of Ministers formally adopted the directive on the protection of personal data in July 1995. The directive tries to strike a balance between the protection of an individual's right to privacy in regard to transmission of personal data and the need to facilitate the flow of such information within the European Community. The directive allows for data transfer to third countries if they provide an adequate level of protection for the data under their own laws or through international obligations they have undertaken. U.S. companies are concerned because the text lacks clarification about data transmission to non-EU countries. The ease with which data moves across borders will depend on how individual member states define adequate level of protection.

(d) Government Procurement Practices

In his April 1995 determination on discrimination in foreign government procurement under Title VII of the Trade Act of 1979, the U.S. Trade Representative cited German Government practices. The Administration identified a concern with German implementation of the 1993 U.S.-EU Memorandum of Understanding on Government Procurement, as evidenced by problems related to a procurement of steam turbines by an eastern German electrical utility. The MOU entitles U.S. companies to national treatment under the EU Remedies for Utilities Directive, while in fact the U.S. bidder has found no effective channel in Germany to seek a remedy. On a separate issue, the U.S. Government continues to be concerned about a provision in the EU's Utilities Directive which allows discrimination against non-EU bidders for government procurement in the telecommunications sector.

(e) Investment

Traditionally, EU member states were exclusively responsible for their policies governing investment from non-EU countries, while the Treaty required that they give investment from other member states full national treatment. The member states have generally had a good investment climate, and the book value of U.S. investment in the EU exceeds 200 billion dollars, or 41 percent of total U.S. investment abroad.

Member state barriers existing on Dec. 31, 1993 remain in effect, but these may now be superceded should the member states agree, through the Council, to enact an EU law. The EU is expected to maintain a welcoming climate for foreign investment, but the U.S. government has expressed concern about reciprocity provisions in the financial services and hydrocarbons directives, and in the proposed groundhandling services directive. The EU requires that firms be majority owned and controlled by EU nationals in order to benefit from the EU maritime and aviation transport directives, and has placed similar ownership restrictions in proposals on mutual recognition of satellite network and communication services licenses and on access to guarantees in the film production and distribution areas.

The EU and its member states are participating actively in the OECD negotiations toward a Multilateral Agreement on Investment, which should help preclude any further discriminatory measures.

6. Export Subsidies Policies

Agricultural Subsidies: Export Subsidies: Under the terms of the UR agreement on agriculture the EU agreed to limit its use of export subsidies for agricultural products, both in terms of the quantities of products subsidized and the amounts of the subsidies. The EU has taken measures which appear to enable the EU to meet its export subsidy commitments and EU officials at all levels have repeatedly stated their intention to do so.

Shipbuilding subsidies: EU member states provide subsidies and other forms of aid to their shipbuilding and repair industries. The European Commission sets annual ceilings for subsidies under its Seventh Directive. In 1995, the ceiling was nine percent of gross investment for new ships and 4.5 percent for conversions and small vessels (under 10 million ECU). This ceiling expires on 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 signed in December, to take effect on January 1, 1996. The Commission deposited its instrument of ratification of the OECD agreement on December 11, 1995, and plans to have necessary implementing legislation adopted by the end of 1995. If the OECD agreement is not ratified by all signatories in time to go into force on January 1, 1996, the EU's Seventh Directive will remain in effect until the agreement enters into force, but not beyond October 1, 1996 at the latest. If the OECD agreement is not in force by June 1, 1996, the Commission will propose new shipbuilding aid rules to take effect after October 1.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights. The member states are members of all the relevant WIPO Conventions, and they and the EU regularly join with us in encouraging other countries to sign up to and fully enforce high IPR standards, including those in the WTO TRIPs agreement. The EU, like the United States, is now considering additional legislation in new areas of IPR protection, as shown in its recent discussion paper on copyright and related rights in the information society.

Trademarks: The USG has declined to join the Madrid Protocol because the Protocol does not delineate under what conditions intergovernmental organizations may join and allows such organizations to have a vote separate and independent from its member states; does not adequately define intergovernmental organizations leaving open the possibility that other similar entities will seek separate votes for themselves; and does not sufficiently address whether the EU or its member states are the competent authority for purposes of implementing the agreement. The USG continues to press the Commission to cooperate in finding a resolution to this impasse since the Protocol's system of trademark registration cannot be truly international without USG membership.

8. Worker Rights

Labor legislation remains largely the purview of the individual member states (see the respective chapters), although the EU has adopted a number of regulations related to occupational safety and health and with respect to employee participation in company decision making. In addition, since last year's report, the EU has decided that GSP beneficiaries may receive an extra margin of preference if they meet certain worker rights standards. The amount of this preference should be decided upon sometime in 1996.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		20,574
Total Manufacturing		101,009
Food & Kindred Products	11,453	
Chemicals and Allied Products	28,328	
Metals, Primary & Fabricated	5,105	
Machinery, except Electrical	15,527	
Electric & Electronic Equipment	7,671	
Transportation Equipment	11,042	
Other Manufacturing	21,883	
Wholesale Trade		23,584
Banking		10,375
Finance/Insurance/Real Estate		76,220
Services		12,825
Other Industries		6,561
TOTAL ALL INDUSTRIES		251,149

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

ARMENIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1993 prices)	510.0	537.5	575.1
Real GDP growth (percent)	−14.8	5.4	7.0
GDP (at current prices)	510.0	652.0	1,347.0
GDP by Sector (percent):			
Agriculture	48.1	46.0	45.0
Industry	26.0	30.4	32.0
Construction	3.7	2.6	3.0
Transportation	0.6	1.5	1.8
Trade and Catering	2.0	1.5	1.9
Other	19.6	18.0	16.3
Real per capita GDP ('91)	0.136	0.156	0.167
Labor force (000s)	1,530	1,475	1,430
Unemployment Rate (percent)	6.5	5.8	7.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	41.3
Base Interest Rate[2]	46.5	360–210	52.0
Personal Savings Rate	N/A	N/A	9.8
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	1,100.0	987.4	29.0
Exchange Rate (NC/US$):			
Official	2,020	350	400
Parallel	2,050	360	400
Balance of Payments and Trade:			
Total Exports FOB	108.0	196.8	218.9
Exports to U.S.	0.2	0.3	0.6
Total Imports CIF[3]	205.4	291.4	443.9
Imports from U.S.[3]	1.9	6.1	4.7

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Aid from U.S.	93.2	100.0	123.0
Aid from Other Countries	19.3	22.8	40.4
External Public Debt	220.0	250.0	353.6
Debt Service Payments (paid)	0	6.9	55.5
Gold and Foreign Exchange Reserves	N/A	32.3	95.0
Trade Balance[2]	−97.4	−94.6	−225.0
Balance with U.S.[3]	−1.7	−5.7	−4.1

[1] 1995 figures are all estimates based on available data in October 1995.
[2] Figures are actual, average annual interest rates, not changes in them.
[3] Grain, fuel and other assistance imports not included. Figures are from the Armenian Ministry of Economy, the Armenian State Department of Statistics, the Central Bank, IMF, and UN.

1. General Policy Framework

Under the Soviet Union's central planning system, Armenia had built up a developed industrial sector, supplying machine building equipment, defense electronics and optics, textiles, and other manufactured goods to sister republics in exchange for raw materials and energy resources. Predominantly a rocky country, Armenia is a large food importer. Its mineral deposits (copper, molybdenum, gold) are small.

The present Armenian government, since its formation in 1991, has demonstrated a firm commitment to turning Armenia from a centralized state with a planned economy into a democratic society with free market economic conditions. However, from the very beginning, the government has struggled with serious problems.

The economic decline which started with the 1988 earthquake and the disintegration of the USSR has been exacerbated over the past five years (1991–1995) by the ongoing conflict over the Armenian enclave of Nagorno-Karabakh in neighboring Azerbaijan. Azerbaijan and Turkey have shut down pipeline and railroad traffic to Armenia for its support of the Karabakh Armenians. This has left Armenia with only unreliable and limited deliveries of Turkmeni natural gas through Georgia, while other fuel and raw materials have been in short supply. In 1992–1995 most industrial enterprises were either shut down or operating at drastically reduced levels. From its introduction in November 1993, the value of the Armenian national currency (the Dram) for 18 months was steadily eroded by inflation. Electricity has been strictly rationed. The urban centralized natural gas-operated heating systems almost collapsed, and in 1992–1995 the centralized heating was provided only to a small portion of the population. During 1992–1994, consumer prices increased sharply (by 11 times in 1994), while real incomes drastically declined. As a result, the standard of living plummeted, and a virtually unprecedented outmigration of the population, including active businessmen and qualified specialists, has occurred. The hardships have also increased the level of corruption in almost all executive government levels, including law enforcement bodies.

By mid-1995, due to economic efforts, the Central Bank's strict monetary policy, and foreign assistance, Armenia's economy started to show some indications of improvement. The Dram has been stable since June 1994, while the average monthly inflation rate in 1995 came down to 1.8 percent. In 1992, Armenia privatized almost 80 percent of its agricultural land. By the end of 1995, it had also privatized most of urban dwellings. The major privatization of national industries started in 1994 with the privatization of small-size enterprises and continued in 1995 with the privatization of medium and large enterprises. Privatization should be complete in 1997 and is a key step toward improving the economic situation and attracting foreign investment. At the same time, Armenia's strong determination to build a market-oriented economy and democratic society has allowed it to engage the IMF, World Bank, EBRD, as well as other financial institutions and foreign countries. Total loans extended to Armenia in 1993–1995 are expected to exceed $500 million. These loans are targeted at eliminating the budget deficit; stabilizing the local currency; developing energy generation and distribution, agricultural, and food processing sectors, land and air transportation, wholesale distribution, and social sectors; as well as continuing rehabilitation of the zone damaged by the 1988 earthquake. In order to improve Armenia's negative trade balance, the government is working to improve operating industries' export performance. Concentrated efforts are being made to develop the banking and stock exchange sector, liberalize trade regulations and bring business legislation in conformance with internationally recognized norms, upgrade the energy industry infrastructure, reopen Armenia's only nuclear

power plant, and to search for new sources/suppliers of energy and fuel. The government promotes the re-establishment of economic ties with the NIS states, and Russia in particular. Iran is rapidly becoming Armenia's leading trading partner. Armenia is open for foreign investors and has the most liberal foreign trade policy of all NIS states. At the same time, the country remains heavily dependent on technical assistance and humanitarian aid, mostly in the form of wheat, rice and fuel. The main suppliers are the United States, the EU, and the United Nations.

A resolution of the country's economic problems is primarily dependent on the ending of the regional conflict around Nagorno-Karabagh, reestablishing normal relations with neighboring countries and lifting blockades.

2. Exchange Rate Policies

At present, Armenia's banking sector consists of two state banks, the Central Bank and the Savings Bank, and more than forty commercial banks, a few of which are partially owned by the state. In 1995, restrictions on convertibility of the Armenian dram were almost completely eliminated. The dram's convertibility within CIS borders was under negotiation. In 1995, the Central Bank continued to determine the currency exchange rate through regular currency auctions conducted at the Yerevan Stock Exchange. The Central bank's exchange rate is used primarily for valuing non-cash transactions between enterprises. Exchange rates at numerous exchange offices, which belong to other banks, may vary from the Central Bank's exchange rate by up to three percent.

No strict limitations exist on hard currency outflow from Armenia. However, permission to export foreign currency in excess of $500 (or an equivalent sum in other hard currency) is granted only upon presentation of documentation proving that the money was purchased officially, or legally obtained. Foreigners may freely expatriate profits received in Armenia after all proper taxes are paid. Export/import payments must be made only on a contractual basis through banks which, along with customs departments, verify the legality of actual export transactions. Companies registered in Armenia must maintain their business accounts in resident banks in Armenia.

3. Structural Policies

In 1995, U.S. commercial exports to Armenia remained insignificant (in contrast to U.S. aid, which outpaced assistance from other countries). U.S. exports were affected more 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. Foreign businessmen continued to exercise the same rights in owning businesses, and were generally subject to the same taxes and regulations, as Armenian resident businessmen. Joint Ventures with more than 30 percent foreign investment are granted significant tax privileges including a general two year tax holiday.

Basic Armenian taxes include a profit/corporate tax (generally 12–30 percent; 45 percent for banks and insurance companies), a value added tax (20 percent), an excise tax (25–50 percent) for sale of certain products, a property tax, a personal income tax, and taxes paid to social security and pension funds. In 1995, export/import licensing was further simplified, while rates 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 10 more types of taxes and duties, including a land tax, no enabling legislation and collection mechanisms have been adopted for them as of yet. All exports from Armenia are duty-free. The law sets minor customs duties (5–10 percent) for imports of certain goods.

In 1994, Armenia adopted a Law on Foreign Investments which should enhance the legal structure for secure investments in the country's economy. In September 1995, Armenia ratified three agreements signed with the United States signed in 1992: Agreement on Trade Relations Between the Republic of Armenia and the United States of America ("Trade Agreement"); Investment Incentive Agreement between the Government of the Republic of Armenia and the Government of the United States of America ("OPIC Agreement"); and Treaty Between the Republic of Armenia and the United States of America Concerning the Reciprocal Encouragement and Protection of Investment ("Bilateral Investment Treaty—BIT").

4. Debt Management Policies

Since Russia assumed responsibility in 1992 for managing Armenia's $561.6 million share of the former USSR's external debt, Armenia has accumulated additional external debt amounting to $353.6 million. This includes an IMF stand-by credit; World Bank loans for rehabilitation projects in the earthquake zone, irrigation and energy 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 loans. Annual debt service payments by the end of 1995 are estimated at $55.5 million.

5. Significant Barriers to U.S. Exports

In 1995, the number of products for which importers in Armenia needed licensing was further reduced, and procedures for obtaining the licenses were simplified. The licensed items include only wild animals, pharmaceuticals, anti-insect chemical substances, military-related equipment, narcotics and psychotropic substances.

At the same time, the following factors acted as significant barriers to U.S. exports to Armenia: low purchasing power of the population and local companies; absence of local long-term financing; generally underdeveloped banking services and high interest rates charged by Armenian banks (the first western bank to enter Armenia, Midland, is planning to open its division in Yerevan in the beginning of 1996); reluctance of U.S. financial institutions to finance trade with Armenia; inadequate, unreliable and expensive cargo transportation services; the continuing blockade of the country's principal transportation land and rail routes; insufficient telecommunication services; absence of information on Armenian market demands; poor intellectual property rights protection; insufficient guarantees for foreign investments; and lack of a dispute resolution mechanism.

In 1995, 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 1995, selected export capable industries were still continuing to receive governmental assistance. Though the majority of state owned enterprises have been self-sufficient basis for a decade, the government subsidized and provided resource discounts to a few producers in critical/strategic industries.

7. Protection of U.S. Intellectual Property

Armenia has not yet fulfilled its IPR obligations under the agreement on trade relations between Armenia and the United States, signed in 1992 and ratified by Armenia in 1995. The agreement 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, trade marks and service marks, and protection against unfair competition.

In August 1993, the Armenian parliament adopted a Law on Patents, and the government established a Patent Administration. Patents are granted for a period of 20 years. In early 1995, the government adopted temporary regulations for registration of trademarks. Basic laws on Trademarks and Copyrights have been under consideration by the Parliament since 1993.

Meanwhile, piracy of U.S. video and audio records, books, and software is widespread through illicit local copying and importation from neighboring states. No exports of pirated materials from Armenia to other states have been observed. Armenian state television and numerous private cable channels regularly show video materials of U.S. origin, many of which are unlicensed.

Armenia is a member of WIPO, Paris Convention for the Protection of Industrial Property, Madrid Agreement Concerning the International Registration of Marks, Patent Cooperation Treaty, Eurasian Patent Convention, and the Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite.

8. Worker Rights

a. *The Right of Association.*—The 1992 Law on Employment guarantees employees the right to form or join unions of their own choosing without previous authorization.

b. *The Right to Organize and Bargain Collectively.*—The 1992 Law on Employment guarantees the right to organize and bargain collectively. Armenia's high unemployment rate makes it difficult to gauge to what extent this right is exercised in practice.

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

d. *Minimum Age for Employment of Children.*—The statutory minimum age for employment is 16.

e. *Acceptable Conditions of Work.*—A standard working week is 40 hours. The minimum annual paid leave is 15 working days. The minimum wage is set by governmental decree and was increased periodically during 1995. Wages are normally paid every two weeks. Female employees are granted privileges which include: prohibition of hard and hazardous jobs; prohibition of night shift work (in certain

cases); prohibition of overtime, work on holidays, and business trips for women with children under age of 2; maternity leave of a minimum of 140 days, maximum one year partially paid, a further one year unpaid; prohibition of dismissal of pregnant women and women with children under the age of 18 months. Employees paid state wages cannot support either themselves or their families and have to look for sources of additional income. Many of those still on the payroll of idle enterprises continue to receive two-thirds of their base salary.

f. Rights in Sectors With U.S. Investment.—There is minimal U.S. investment in Armenia.

Data on U.S. investment in Armenia is not available.

AUSTRIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	79,019	81,150	83,098
Real GDP growth (percent)	−0.1	2.7	2.4
GDP (at current prices)	182,098	196,568	232,832
GDP by Sector:			
Agriculture	4,161	4,431	5,109
Energy and Water	5,168	5,315	6,317
Manufacturing/Mining	43,010	46,769	56,337
Construction	13,912	15,218	17,861
Financial Services	34,497	38,030	45,059
Other Services	49,544	52,487	61,901
Public Services	26,836	28,678	33,337
Net exports of Goods and Services	−69,080	−74,641	−90,822
Real Per Capita GDP (1985 prices)[2]	9,889	10,116	10,336
Labor Force (000s)	3,666	3,667	3,662
Unemployment Rate (percent)	4.2	4.4	4.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	3.2	7.6	3.5
Secondary Bond Market Rate[3]	6.74	6.69	6.60
Personal Savings Rate[3]	11.7	12.5	12.1
Wholesale Inflation	−0.4	1.3	1.0
Consumer Price Index	3.6	3.0	2.3
Exchange Rate (AS/US$)[4]	11.63	11.42	10.10
Balance of Payments and Trade:			
Total Exports (FOB)	40,172	44,877	55,604
Exports to U.S.	1,324	1,559	1,832
Total Imports (CIF)	48,573	55,061	66,960
Imports from U.S.	2,132	2,408	3,020
External Public Debt[5]	18,302	22,850	28,713
Debt Service Payments	2,511	2,163	4,069
Gold and Foreign Exchange Reserves (year-end)	18,272	19,089	N/A
Trade Balance[6]	−8,401	−10,184	−11,356
Balance with U.S.[6]	−808	−849	−1,188

[1] Data as of October 1995 and available economic forecasts.
[2] Converted at the 1985 exchange rate of Austrian Schillings (AS) 20.69 for U.S. Dollar 1.00.
[3] Figures are actual, average annual rates, not changes in them.
[4] There is only an official rate, no parallel rates.
[5] Figures reflect the federal government's external debt.
[6] Merchandise trade only.

1. General Policy Framework

Austria, a member of the European Union (EU) since January 1, 1995, has a well developed market economy with a high standard of living. With exports of goods and

services reaching 41 percent of GDP, Austria's economy is closely integrated with other EU member countries, especially with Germany. Since the early 1980's, the Austrian economy has experienced stable growth. Following a mild recession in 1993, Austria's economy, driven by strong exports, investments, and private consumption, expanded 2.7 percent in 1994. Accession to the EU is expected to spur investment, employment, and growth, both by providing access to the Single Market and by fostering liberal policies to promote competition and dismantle protectionism. Already, accession has had a positive impact on foreign investment, attracting overseas firms already positioned to market in the EU and seeking convenient access to emerging markets in Central Europe.

Despite Austria's favorable economic prospects, the Government faces a number of economic challenges, foremost of which is the budget consolidation process that will be required for Austria to meet the convergence criteria to join the European Monetary Union (EMU) by 1999. Austria ended 1994 with an annual budget deficit that reached 4.7 percent of GDP, compared to 3 percent required under the criteria. The Government implemented an initial austerity package for the 1995 budget, comprising a modest reduction in family allowances, as well as a gasoline tax increase. However, increased social expenditures and additional payments to the EU totalling $2.8 billion are expected to push the 1995 deficit to 5.1 percent of GDP. In October 1995, the nine-year government coalition between the Social Democratic Party (SPO) and the Austrian People's Party (OVP) broke up over a new austerity package for the 1996 budget. Elections are scheduled to be held on December 17, 1995.

The European Union's Single Market and the economic transformation occurring in Central Europe also pose significant challenges to the Austrian economy. To meet increased competition from both the EU and Central European countries, less competitive low-tech production will have to shift towards more specialized value-added manufacturing. While the Government has taken measures to foster liberal policies to adapt to EU standards, Austria's economy is still characterized by wage-price rigidities, barriers to market entry, and an elaborate regulatory environment.

Over the last 15 years, monetary policy has been focused on foreign exchange rate rather than money supply targets—specifically, maintaining an essentially fixed ratio between the Austrian Schilling (AS) and the German Mark (DM). Because of the central importance of Germany as a trading partner, the policy of linking the Schilling to the German Mark is not expected to change in the foreseeable future.

2. Exchange Rate Policies

The Austrian National Bank (ANB) continues to pursue a "hard Schilling" policy, adjusting interest rates to peg the Schilling to the German Mark at an exchange rate of AS 7 to DM 1. In 1994, the Austrian Schilling appreciated against the U.S. Dollar and many other European currencies. Despite continuing complaints from Austrian exporters, the ANB has used every opportunity to reaffirm its long-standing "hard Schilling" policy, as well as its plans to participate in the "hard core" of the EMU. On acceding to the EU, Austria joined the European Monetary System (EMS) and the Exchange Rate Mechanism (ERM).

The ANB has fully liberalized all cross-border capital transactions for non-residents and residents. A capital market law on public securities introduced in 1992 deregulated and liberalized Austrian capital markets. U.S. issuers of bonds and securities are free to place offerings in the Austrian capital market.

3. Structural Policies

Participation in the European Economic Area (EEA) on January 1, 1994 required Austria to accelerate structural reforms and to open its economy. This process has continued since Austria's accession to the EU. Most non-tariff barriers to merchandise trade have been removed. Financial and other services have been liberalized. Cross-border capital movements and market access for foreign bonds have been fully liberalized.

In 1992, as part of a comprehensive tax reform package, the Government introduced measures to reduce and simplify taxation of individuals and companies. Reforms implemented in 1994 focused on increasing a general tax credit for all taxpayers and abolishing other taxes, such as the net assets tax and the special business tax on commercial and industrial enterprises. The corporate income tax was raised from 30 to 34 percent. Austria's accession to the EU required Austria to revise some taxes, such as its import turnover tax, to conform to EU guidelines. The introduction of an energy tax has been proposed.

Although in recent years the Government has begun to privatize some state enterprises, the state-owned or -dominated sector continues to play a significant role in the economy. However, the scope of government interventionist policies, a tradi-

tional feature of the Austrian economy, has been reduced since 1993. The Government lifted price controls, and has begun to privatize state-owned companies. Subsidy programs were scaled back to conform to EU regulations. Still, state-owned industries employ 15 percent of the industrial workforce and account for 20 percent of exports.

A new, more liberal business code and a new cartel law, which imposed tighter controls on mergers, went into effect in 1993. Austria implemented its first procurement law in 1993. In July 1994, a new Environmental Impact Assessment Act was passed to regulate large industrial and infrastructure projects. Because of the extensive regulations imposed by this and other environmental legislation, industry views licensing procedures as costly and cumbersome.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1994, the federal government's external debt amounted to $22,849 million (21.2 percent of the government's overall debt) and consisted of 89 percent bonds and 11 percent direct borrowing. Debt service amounted to $2,163 million in 1994, or 1.1 percent of GDP and 2.9 percent of total exports of goods and services. In 1994, total public sector debt amounted to $27,522 million or 14 percent of GDP and is estimated to have climbed to 15 percent in 1995. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

On Austria's accession to the EU, 63 percent of existing tariffs were lowered or eliminated, while 31 percent were increased. U.S. exports of chemicals, plastics, computers and photographic equipment, semiconductors, and integrated circuits were affected adversely. In 1995, the United States and the EU entered into negotiations to reach an agreement to compensate the United States for these tariff increases under GATT rules.

The EU's Common Agricultural Policy (CAP) also has had a negative impact on imports of U.S. agricultural goods into the Austrian market. Import duties for some key U.S. agricultural products such as tobacco, rice, and raisins rose considerably. In addition, the EU ban on imports of hormone-treated beef is severely restricting U.S. exports of beef to Austria.

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 by December 31, 1998, because the endowment capital from their parent companies will no longer be included in the capital base used for calculating these limits.

Providers of financial services, such as accountants, tax consultants, and property consultants, must submit specific proof of their qualifications, such as university education or number of years of practice. Other service activities also require a business license, of which one of the preconditions is legal residence. Under GATS, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with an Austrian firm to get around these restrictions.

Austrian labelling and marking requirements are not as strict as those in the United States. Nutritional information is not required on food products, nor are safety warnings on electrical devices. Labelling in the German language is not required. Austrian national standards are in the process of being harmonized with those of the EU. For some categories of goods, including machines and children's toys, the EU certification (CE mark) is required, while for others existing national standards still apply.

Testing and certification procedures are generally transparent. Problems only arise for firms seeking certification of state-of-the-art technologies. With the adoption of the 1994 telecommunications law, the government has taken steps to bring Austria in line with the EU's more liberal policies. The result is that registration procedures for telecommunications equipment have been liberalized.

The investment climate in Austria is favorable, with no formal sectoral or geographic restrictions. The Government of Austria generally welcomes all foreign direct investment, with no discrimination against foreign investors. In most business activities, 100 percent foreign ownership is permitted. Investment incentives are abundant. In addition to EU structural subsidies available to areas where 41 percent of the population is concentrated, financial incentives are offered by federal, provincial, and local governments, as well as other institutions. However, investors must sometimes deal with complicated administrative procedures to obtain approval

for new operations. For foreigners, the purchase of real estate is complicated by varying environmental regulations and land utilization plans of the individual provinces. In one recent case involving the establishment of a large assembly plant, environmental and administrative approval procedures took nearly two years. Austrian residency laws and quotas for foreign labor have caused problems for resident U.S. firms in obtaining resident and work permits for non-EU citizens and their dependents.

Austria ratified the Uruguay Round Agreements on December 6, 1994. The Government adheres to the General Agreement on Tariffs and Trade (GATT) public procurement procedures. Austria does not have restrictive "buy-national" laws, and the principle of the best bidder is usually maintained. However, offset requirements are common in defense contracts. Austria's first federal procurement law was enacted in 1993 which adopted EU legislation on procurement. In its first year of EU membership, Austria continued to bring its legislation into line with EU standards, particularly to comply with guidelines on services and the legal remedy directive.

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. Following Austria's accession to the EU, the Austrian Kontrollbank (AKB), Austria's export financing agency, stopped providing economic risk guarantees for short term financing of exports to OECD countries. A 1995 amendment to Austria's Export Guarantees Act (AFG) enables the AKB to guarantee un-tied credits. On accession to the EU, Austria had to abolish its 0.3 per mille levy on all exports and imports earmarked for export promotion. The AKB's export fund provides export financing programs for small and medium-sized companies with annual export sales of up to $10 million.

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 (WIPO). Unfortunately, the piracy of software, video programs, and films is still prevalent. Several laws have been enacted in recent years to combat this growing concern. To prepare for its entry into the EU, Austria amended its copyright law in March 1993 to include protection of computer software. In 1995, the Justice Ministry drafted legislation to adopt EU directives on satellite broadcasting and cable. A levy on imports of home video cassettes and a compulsory license for cable transmission is required under Austrian copyright law. Of total revenues, 51 percent go to a special fund for social and cultural projects. 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 of video piracy almost impossible. In a recent suit by a publishing house against an Austrian piano teacher who had copied protected musical works of a German composer for his pupils, the Austrian Supreme Court ruled that the copying of musical notes of foreign composers is prohibited under law.

8. Worker Rights

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

b. *The Right to Organize and Bargain Collectively.*—Austrian unions enjoy the right to organize and bargain collectively. The Austrian Trade Union Federation (ÖGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the ÖGB 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 for Employment of Children.*—The minimum legal working age is 15. The law is effectively enforced by the labor inspectorate of the Ministry for Social Affairs.

e. *Acceptable Conditions of Work.*—There is no legally-mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over 50 percent of the workforce works a maximum of either 38 or 38.5 hours per week, a result

of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. Rights in Sectors With U.S. Investment.—Labor laws tend to be consistently enforced in all sector, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		192
Total Manufacturing		834
Food & Kindred Products	18	
Chemicals and Allied Products	43	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	65	
Electric & Electronic Equipment	313	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		245
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		212
Other Industries		−14
TOTAL ALL INDUSTRIES		31,611

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP Growth (percent)	−23	−22	−6
GDP (at current prices)	3,231	2,627	2,153
Per capita GDP[2] (US$)	431	350	287
Labor Force (millions)	2.7	2.6	2.7
Unemployment Rate (percent)[3]	0.7	27.9	18.0
Money and Prices (annual percentage growth):			
Base Interest Rate	N/A	150	100
Retail Inflation	1,130	1,664	85
Wholesale Inflation	209	890	100
Consumer Price Index	1,080	1,403	820
Exchange Rate (manat/US$—annual average):			
Official	130	1,410	4,500
Parallel	256	1,410	4,500
Balance of Payments and Trade:			
Total Exports FOB	351.2	636.8	322.4
Exports to U.S.	3.4	0.2	0.0
Total Imports CIF	513.9	777.9	377.5
Imports from U.S.	10.8	9.2	7.3
Aid from U.S.	20	23	26
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	550.0

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Debt Service Payments (paid)	N/A	N/A	59.0
Gold and Forex Reserves	1.0	3.0	118.0
Trade Balance	−162.7	−141.1	−55.1
Balance with U.S.	−7.4	−9.0	−7.3

[1] Projected.
[2] These per capita income figures appear very low. Embassy believes official figures do not fully reflect the growth of the informal trading sector.
[3] Embassy believes that the real unemployment rate is significantly higher than these figures indicate.

1. General Policy Framework

Azerbaijan is a former Soviet republic with a population of 7.5 million people. It has rich petroleum resources and therefore is a significant potential trading and investment partner of the United States. The country has enormous oil and gas resources, particularly offshore in the Caspian Sea. In September 1994, a consortium of Western oil companies and the Government of Azerbaijan signed an $8 billion oil production sharing agreement (PSA). Under the PSA the oil companies formed the Azerbaijan International Operating Company (AIOC) to develop the offshore Chiraq, Azeri and Guneshli fields. AIOC has successfully completed its work on schedule, and early oil is expected to be flowing from Chiraq by November 1996, with full field development around the turn of the century. On November 10, a second major oil consortium was formed by U.S., Russian, and Italian oil companies, as well as the State Oil Company of Azerbaijan, to develop the Karabakh offshore oil field.

The economy has declined steadily since Azerbaijan became independent in 1991. Contributing factors in this decline have been the Nagorno-Karabakh conflict, the disruption of trade ties within the former Soviet Union and the collapse of large parts of the state manufacturing sector. Heavy industry in Azerbaijan, such as oil refining, petrochemicals, oil field equipment and air conditioner manufacturing plants, are working below capacity. These factories will require substantial foreign investment to make their products competitive on world markets. Despite claims that 2,000 private farms have been created, the agricultural sector remains dominated by large state and cooperative farms. Azerbaijan has great agricultural potential to produce cotton, tobacco, silk, and tea, as well as grapes and other fruits for export. The key to renewed growth in both manufacturing and agriculture is privatization. The government has repeatedly expressed its determination to proceed with privatization.

Private businesses have appeared, particularly in the retail and service sectors. There are definite signs of prosperity—such as new residential construction and new cars—at least for some pockets of the population. Many state enterprises are beginning to produce and market products independently of central control. Most international experts believe that a rapid production response from newly privatized enterprises, particularly in agriculture, could reverse recent economic declines. Although privatization will cause increased unemployment as inefficient state enterprises become more efficient, this effect is expected to be a temporary consequence. The prospects for U.S. exports of consumer goods are likely to improve as privatization moves forward and economic growth resumes.

Azerbaijan has made dramatic progress on the financial stabilization front over the last year. Monthly consumer price inflation was in excess of 50 percent at the end of 1994. Working closely with the International Monetary Fund (IMF), the Azerbaijan government tightened up monetary policy and enacted a restrictive budget for 1995. The Central Bank and the Ministry of Finance have closely coordinated efforts to limit government spending and curtail credit emission. State banks were compelled to stop issuing interest-free loans to non-creditworthy state enterprises. The Azerbaijan government has signed and remained in compliance with an IMF systemic transformation facility (STF) and standby agreements. As a result, consumer price inflation significantly declined. Azerbaijan's monthly price index actually declined in June and has remained below 5 percent since May.

2. Exchange Rate Policies

The successful financial stabilization policy outlined above contributed to the stability of the Azerbaijani manat since December 1994 at the rate of 4,500 manat per U.S. dollar. Earlier in 1994, when domestic price inflation was raging, the manat declined significantly relative to the dollar. Under current foreign exchange market

rules, exporters are required to sell 30 percent of their hard currency earnings at regular inter-bank currency market auctions. At present the manat is not overvalued—i.e., there is no significant black market for foreign exchange, and official and parallel (black market) rates do not differ. At least one hundred independent foreign currency exchange centers operate in Azerbaijan. Each center is required to exhibit an official certificate for exchange operations, but no limit is imposed on the amount of money which can be exchanged. However, the government imposes a limit on the amount of foreign currency that can be taken out of the country.

3. Structural Policies

Successful financial stabilization in the long run requires structural changes in the economy. The key structural reform policy the government is grappling with is privatization. In theory, agricultural privatization started last year. In fact, the rural privatization program has had desultory results and land tenure remains unclear. On a completely separate track, and with World Bank technical assistance, the Government of Azerbaijan is developing an industrial privatization program. Despite numerous delays, this privatization appears likely to be put into effect by the end of 1995. Privatization vouchers are being printed, which the government will be distributing to the population in the near future. The government has repeatedly welcomed foreign participation in this privatization program.

Since the end of 1994 the government implemented a number of pricing policy reforms in compliance with its IMF STF program. The government eliminated large consumer subsidies on gasoline and bread. It also raised energy prices to world market levels.

The government implemented a new tax system in 1992 through a series of presidential decrees. This system is composed mainly of four taxes: 1) a 20 percent value added tax; 2) an enterprise profit tax, with a standard 35 percent rate and differential rates allowed on certain enterprises; 3) excise taxes of up to 90 percent of the price for selected goods; and 4) a personal income tax, progressive in nature but not rigidly enforced. Other important sources of government revenue are a royalty on crude oil production and a tax on vehicle ownership. The government's policy of attracting foreign investment provides tax concessions in certain priority sectors, although the mechanism for securing these tax concessions has not yet been established.

The Azerbaijan government regulates exports of the main hard currency earning exports, such as 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

Azerbaijan has not finalized an agreement with Russia about its share of the former Soviet Union's foreign debt. Azerbaijan's other significant external debt is to the Turkish Export Bank. Total external debt of Azerbaijan amounts to about $550 million. In 1995 Azerbaijan's debt service is estimated to be about $59 million, less than 3 percent of GDP, about 11 percent of total external debt, and 18 percent of projected exports. In 1995 exports are estimated to be $322 million. Azerbaijan has a projected trade deficit of about $55 million. Azerbaijan has had neither a Paris Club rescheduling of official debt nor a London Club rescheduling of commercial debt. The external debt is not an obstacle to greater U.S. trade with Azerbaijan.

5. Significant Barriers to U.S. Exports

One barrier to U.S. exports is the government's practice of using government-to-government barter deals to finance imports. Azerbaijan pays for about one-fourth of its imports by trading goods such as primarily oil-based products, cotton, oil field equipment, diesel fuel, chemical products of organic synthesis, silk, waste metals and tobacco. However, these barter deals are a declining proportion of total imports and would only pose a problem for U.S. exporters competing with products from the former Soviet Union.

Import licenses: At present Azerbaijan does not require import licenses.

Services barriers: The major barrier to the growth of the U.S. service sector in Azerbaijan is the rudimentary nature of Azerbaijan's legal and financial system. Azerbaijan recently adopted a bankruptcy law, but no foreclosures have taken place and the use of real collateral for loans is limited. There is no commercial transactions law in place. However, the government has said repeatedly that U.S. financial institutions and telecommunications companies are welcome to operate in Azerbaijan. There are two U.S. accounting firms operating successfully in Baku.

Standards, testing, labeling, and certification: The Chamber of Commerce and Industry of Azerbaijan is responsible for ensuring basic health standards on imported food. The U.S. Embassy is not aware of any other official standards established for

imports. At present there are no labeling or marking requirements in Azerbaijan. The Azerbaijan government prohibits the import of radioactive materials and wastes, narcotics and psychotropic drugs. Special permission is required to import weapons, explosives and certain radioactive equipment used in the oil industry.

Investment barriers: Azerbaijan welcomes foreign investment. However, considerable ambiguities exist concerning tax rates and "exclusive" agreements. According to the foreign investment law of 1992, the Cabinet of Ministers must pre-approve all foreign investments. The Cabinet of Ministers approves concessional agreements for mineral exploration. Extraction rights are granted through concessional agreements with the approval of the Cabinet of Ministers, and may require parliamentary approval as well. Both Azeris and foreigners may lease land. At present, foreigners can buy real estate only jointly with Azerbaijani partners participating in joint ventures.

During the first four years of independence there have been no expropriations or major investment disputes involving foreign companies. However, some companies have had problems in getting government agreement to fulfill payment obligations. An international arbitration mechanism to resolve disputes between the Government of Azerbaijan and private companies, as well as between foreign and Azeri firms, has yet to be established. Azerbaijan is not a member of the International Center for the Settlement of Investment Disputes. Although a bilateral trade treaty is in effect between Azerbaijan and the United States, negotiations for a bilateral investment treaty have not yet been completed.

Government procurement practices: Selling to the central government or to state enterprises is difficult, particularly outside the energy sector. Major oil revenues are not expected to flow to Azerbaijan before November 1996. At present, the government is running arrears in payments to domestic suppliers. State enterprises are often two to three months late in paying their own employees. Firms selling to the Azerbaijan government should be particularly careful to specify beforehand how the value-added tax will be handled.

Custom procedures: Customs procedures are burdensome. Importers are required to provide customs authorities with the following documentation: (1) a signed import contract, (2) a customs declaration specifying what is being imported, (3) an invoice for the goods imported, (4) permission from the relevant ministry for imports including pesticides, medicines, weapons and ammunition, (5) the bill of lading, (6) a certificate of origin, and (7) a certificate of quality for the imported merchandise.

6. Export Subsidies Policies

The manufacturing sector remains in government hands. However, energy prices have been raised and there are no direct government export subsidies. Export tariffs are levied on most goods. As specified by the foreign investment law, goods produced from imported raw materials and goods produced by foreign investors in Azerbaijan are exempt from the duty.

7. Protection of U.S. Intellectual Property

Although foreign patents, trademarks, and copyrights are covered in the U.S.-Azerbaijan bilateral trade treaty, no effective enforcement mechanisms are yet in place to protect intellectual property rights. Azerbaijan is a member of the World Intellectual Property Organization and a party to the Paris (industrial property) Convention, the Berne and Universal Copyright Conventions, the Eurasian Patent Convention and the Patent Cooperation Treaty. The government's Committee on Science and Technology has drafted patent, trademark and copyright bills, but the parliament has not yet passed these bills into law.

Trademarks: Trademarks can be registered with the Ministry of Foreign Economic Relations. Occasional counterfeit bottles of Fanta have been found in Baku markets. A Baku restaurant illegally uses the name of a major U.S. restaurant chain.

Copyrights: There is widespread sale of pirated video films, books (translations), computer software and music. Pirated products are mostly imported from Russia and reproduced locally. However, there is no evidence that locally produced counterfeit goods are exported to third countries.

New technologies: Except for computer software, which is virtually all pirated, new technologies are not subject to significant infringement. Most pirated software comes from Russia, although some software appears to have been illegally copied from a program received by the Academy of Sciences through a private humanitarian aid project.

Given Azerbaijan's relatively low level of imports and low per capita income, intellectual property violations probably have a minimal impact on U.S. exports at this time. However, as oil exports grow, the importance of the Azerbaijani market will grow as well.

8. Workers Rights

a. *The Right of Association.*—The new Constitution provides for freedom of association, including the right to form labor unions. However, most industrial and white-collar workers are organized into one or another sub-branch of the Azerbaijani Labor Federation, run by the Government. Most Azerbaijani labor unions continue to be highly dependent upon the government, although there is an independent oil workers union. There is a legal right to strike. One strike was reported in 1995 which involved oil workers. There are no provisions for retribution against strikers. Unions are free to form federations and to affiliate with international bodies. Azerbaijan is a member of the International Labor Organization.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining remains at a rudimentary level. Government-appointed boards and directors run the major enterprises and set wages. Unions do not participate in determining wage levels. In a carryover from the Soviet system, both management and workers are considered members of the professional unions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is allowed by the Constitution only in case of martial law. It is not known to have been practiced. Two departments in the prosecutor's office (the Department of Implementation of the Labor Code and the Department for Oversight Over Minors) enforce the prohibition on forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—The minimum employment age is 16 years. Children of age 14 are allowed to work during vacations with the consent of their parents and certification of a physician. Children of age 15 may work if the workplace's labor union does not object. There is no explicit restriction on the kinds of labor that children of age 15 may perform with union consent. The Labor Ministry has primary enforcement responsibility for child labor laws. With high adult unemployment, there have been few, if any, complaints of abuses of child labor laws.

e. *Acceptable Conditions of Work.*—The nationwide monthly minimum wage is set by parliamentary decree. It was raisedfrom manat 4000 (about $0.89) to manat 5500 (about $1.22) in February 1995. There seems to be no active mechanism to enforce the minimum wage but, since very few people actually earn the minimum wage (most who work earn more), this is not presently a major issue in labor or political debate. Unemployment benefits (equal to the minimum wage) were granted to about 40,000 people in 1994. The legal work week is 41 hours for adults, 36 hours for children aged 16 to 18, and 24 hours for children aged 15 to 16. The work week is limited to not more than 36 hours for officially listed "jobs in unhealthy conditions." Health and safety standards exist, but they are mostly ignored in the workplace.

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. However, wages are higher than average in enterprises with U.S. oil company investment, and 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—1994

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP Growth (percent)[2]	−11	−13	−11
Labor Force (000s)	4,824	4,696	4,259
Unemployment Rate (percent)	1.4	2.1	2.5
Money and Prices:			
Money Supply	N/A	590	1,300
Base Interest Rate[3]	210	480	66
Personal Saving Rate (percent)[4]	39	49.2	58.5
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	2,415.5	1,966.8	225.5
Consumer Price Index	2,096.6	2,059.9	308.8
Exchange Rate:[5]			
Official	2,936	3,699	11,540
Parallel	3,160	4,652	11,533
Balance of Payment and Trade:			
Total Exports FOB	1,863.5	2,510	3,024.1
Exports to U.S.	39.1	54.5	49.2
Total Imports CIF	2,368	3,066.3	3,288.9
Imports from U.S.	45.6	51.3	41.2
Aid from U.S.	N/A	6.9	9.3
Aid from Other Countries	N/A	34.4	23.4
External Public Debt	437.7	349.3	125.2
Debt Service Payments (paid)	10.3	121.9	124.1
Gold and FOREX Reserves[6]	59.6	175.1	523.3
Trade Balance	−504.5	−556.3	−264.8
Balance with U.S.[6]	−6.5	−29.4	−2.1

[1] 1995 figures are all actual as of September.
[2] Percentage changes calculated in local currency.
[3] Figures are actual, average annual interest rates, not percentages of change.
[4] As a percentage of the money supply.
[5] 1995 figures are as of October 1995.
[6] 1995 figures are as of August 1995.

1. General Policy Framework

Belarus formally declared sovereignty on July 27, 1991. Together with Russia and Ukraine, Belarus was a founding member of the Commonwealth of Independent States (CIS) in December 1991. In March of 1994, the Parliament passed Belarus' first post-Soviet constitution, building the framework for a government with a strong executive branch. In July of 1994, Aleksandr Lukashenko was elected as the first president of the Republic of Belarus. May 1995 legislative elections, conducted in less than free and fair conditions, failed to fill enough seats to produce a new parliament.

Another round of parliamentary elections took place November 29, 1995. Runoff elections in districts where there was no clear winner were held on December 10. In the gap between parliaments, President Lukashenko has largely ruled by decree. A few decrees, including one changing the state budget, have been brought before the Constitutional Court questioning their constitutionality. Overall economic policy is directed by the President's Administration through the Cabinet of Ministers, led by Prime Minister Chigir. In the summer of 1995, the Belarusian President declared his intention to create a policy of "market socialism". The pace of economic reform has been consistently slow.

Belarus achieved remarkable macroeconomic stability in 1995, holding its ruble rate steady at approximately 11,500 to the U.S. dollar since January, and bringing the inflation rate down from 40 percent in January to less than six percent from May through October. In September 1995 Belarus reached agreement with the IMF on a $300 million stand-by loan.

While the Belarusian government began in early 1995 to enact some structural reforms, such as price liberalization and lowering subsidies for communal services

in accordance with a previous IMF agreement, meaningful progress on privatization, land ownership and tax reform has not yet been made. Belarus has also failed to cut some subsidies which were required under the terms of the IMF agreements. While government policy calls for increased reliance on market mechanisms, the government retains central control of key market sectors, including agriculture. Only about 20 percent of the economy belongs to the private sector.

Belarus has a diversified economy, which previously maintained the highest standard of living in the Soviet Union. The Republic can meet most of its own basic food needs with the exception of feed grains, sugar and vegetable oil. The agricultural sector is still largely operated under the Soviet collective farm system. The industrial sector is biased toward heavy industry, particularly machine building, heavy trucks and tractors, electronics, chemicals, defense related production, and construction materials. Virtually all of these enterprises remain state-owned. Many are on the verge of bankruptcy mainly due to inter-enterprise arrears. Some are individually seeking Western partners to upgrade their production lines. Overall industrial output has declined over the first 10 months of 1995 by 20 percent.

Traditionally low prices for Russian energy supplies allowed Belarus to develop an energy intensive industrial base. Since independence, Belarus has accrued an energy debt to Russia of 509.5 million dollars. The government is attempting to finance it through a debt for equity swap by creating joint ventures with Russian firms to give them majority control over a large portion of the Belarusian oil refining sector, and by encouraging payment of overdue military industrial debts owed by Russia. Other deficit financing is accomplished through sales of floating rate government bonds and credits issued by the National Bank of Belarus (NBB).

Fiscal and monetary policies: The Government of Belarus allows itself a budget deficit of no more than six percent of government expenditures. It has met its budget targets each of the last four years. Its program with the IMF requires the Belarusian government to keep the deficit to less than 3.2 percent of the budget, and it is expected to meet that target. The central bank is authorized by law to issue credits up to four percent of gross domestic product.

The main instruments of monetary control are the volume and cost of NBB lending to banks, IMF-required monetary reserve targets, and interest rate policies. The executive branch controls hard currency flows by mandating minimum reserve requirements. The government also introduced a limited government securities market in September 1995. Establishing monetary discipline is impeded by the practice of monetizing the fiscal deficit and the occasional practice of canceling outright 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.

The National Bank of Belarus is not a strong institution. It is hampered by a lack of technical and financial expertise and by political interference. Its reform-oriented chairman, Stanislav Bogdankevich, resigned in September 1995 after the Presidential Administration merged a large public and a private bank by executive fiat without consulting the National Bank, which by law has oversight of banking operations in the country. In the wake of the state mandated merger, some small private banks have begun to merge to in order to survive and gain strength.

2. Exchange Rate Policies

As of January 1, 1995, all retail trade has been conducted in Belarusian rubles. Since mid-January 1995 the ruble rate has artificially been held steady against the U.S. dollar by legislated high real interest rates to create demand for Belarusian rubles. When the rates were lowered in August and demand dropped, the National Bank began to use its hard currency reserves as well as sales of government securities to maintain the exchange rate. This artificially fixed rate of the national currency has hurt Belarusian exporters. While the low ruble rate may help imports into Belarus, new import value-added taxes and higher import tariffs resulting from the 1995 Customs Union with Russia and Kazakhstan have largely negated any such benefits.

3. Structural Policies

Tax and Customs Policies: Businesses in Belarus are liable for more than 20 different types of taxes and levies, several of which were added in 1995. As a result of the Customs Union between Belarus and Russia, Belarusian customs tariffs were raised across the board from 5–10 percent to 20–40 percent and the customs border between the two countries was eliminated, allowing goods produced in Belarus to enter Russia with no customs duties. While this could be an incentive for foreign investors to manufacture in Belarus and sell their goods in Russia, the higher customs tariffs paid at the "external" Belarusian border would bring down any net profit. Further, in August, the Belarusian Government introduced a 20 percent import

VAT to be paid at the border on virtually all incoming goods. The government temporarily rescinded it in September on certain raw materials used by local manufacturers.

Frequent changes in the array of taxes on profits, property, land, fuel, natural resources, income, Chernobyl consequences, employment, social security and more pose problems for businesspeople. Fines are often severe and the tax authorities are entitled to keep a portion of them, providing incentive to find irregularities. A clause in the Foreign Investment Act which entitles foreigners to a five year exemption from new tax laws that are less favorable than those in place at the time of a firm's registration is often disregarded by Belarusian authorities.

Pricing Policies: Prices were liberalized in the spring of 1995 in accordance with an IMF stand-by agreement. Only utilities, public transportation, bread and a few other food staples retain government price controls.

Regulatory Policies: The act of registering with the local authorities is often a significant obstacle for foreign and domestic businesses alike. Applications can languish unattended or be arbitrarily denied. Banking regulations authorize each legal entity only one ruble account and one hard currency account. The tax authorities have the right to freeze those accounts without warning when they suspect violations and the business entity may not open another bank account, even if the inspection/litigation process lasts several months. These situations especially cripple foreigners' ability to conduct business and push many firms into operating in a gray market by paying their employees in cash "bonuses" or finding other ways to circumvent tax and banking procedures.

4. Debt Management Policies

On September 12, after protracted negotiations, the IMF approved a $293 million stand-by loan for Belarus. Earlier negotiations broke off in the spring of 1995, when the IMF determined that Belarus had not lived up to its agreement for a stabilization loan of $100 million granted at the end of 1994. The September stand-by loan went forward because of Belarus' impressive macroeconomic stabilization record for 1995 and because of a tightly written agreement requiring Belarus to hit specific reform benchmarks before each tranche of the loan can be released. The IMF's 1995 projection for servicing Belarus' external debt of $2 billion will require 22.9 percent of per capita GDP, or 6.9 percent of its exports.

The United States, European Union, various European countries and Japan provided nearly $300 million in balance of payments support for the IMF loan. The U.S. Export-Import Bank does not provide direct loans to the Government of Belarus, while the European Bank for Reconstruction and Development (EBRD) has provided only a minimal amount. The EBRD is, however, financing several major commercial and infrastructure improvement projects. The U.S. Government and EBRD have capitalized investment funds of nearly $200 million targeted at small and medium sized businesses. The World Bank is also active in Belarus, financing telecommunications, construction and other projects. OPIC has begun to finance a few Belarusian joint venture projects and provide political risk insurance. Belarus was granted GATT observer status in 1992 and in November 1995 approved a memorandum on the Republic's trade regime, the main document necessary to seek admission to the World Trade Organization.

5. Significant Barriers to U.S. Exports

The Government of Belarus invited representatives of leading U.S. businesses to meet with the President, Prime Minister and other Belarusian officials in September 1995 to discuss investment opportunities. As of late November, promised changes regarding privatization, foreign ownership of property, free trade zones and a foreign investment troubleshooting committee have not transpired. Currently foreigners may buy apartments and certain other real property, but they cannot purchase land. They may only lease the land on which their property stands for a period of up to 99 years.

Formal import licenses are required only for industrial waste and chemical fertilizers. Certification of imported equipment in the communications and industrial sectors can, however, be bureaucratically difficult. Complicated registration procedures are required to engage in scrap metal trading, as the Belarusian government seeks to discourage organized crime elements from engaging in this and other lucrative trading operations.

Bureaucracy, lack of infrastructure and complexities arising from the Customs Union with Russia result in burdensome customs procedures. Commercial truckers can wait at the borders from Poland and Lithuania for as long as three days. In the summer of 1995 Belarus introduced a fee structure for any vehicle entering from abroad, whether driving to or through Belarus. Private cars are assessed $20, while

buses and heavy trucks have to pay between $100 and $160 for using Belarusian roads.

6. Export Subsidies Policies

There are no overt export subsidies policies on the part of the Belarusian government. However, there are indirect subsidies to many state owned enterprises, most of which export their products. Under governmental pressure, the National Bank and commercial banks have been required to provide loans to these enterprises at less than the commercial lending rate. The IMF is urging cessation of these indirect subsidies. Another instance of an indirect export subsidy involved the Minsk Tractor Factory. Because of hyperinflation and rapid devaluation of the Belarusian ruble in 1994, a deal negotiated at the current ruble rate in the summer of 1994 to sell 12,000 Belarusian tractors to Pakistan resulted in a loss of approximately $5,000 per tractor as the tractors were delivered in 1995. The Belarusian government had to absorb the loss to the state owned factory. Subsidies to state owned enterprises are a legacy of the Soviet past aimed at maintaining production and employment and are not directly intended to support exports.

7. Protection of U.S. Intellectual Property

Intellectual property rights are poorly understood and not well protected in Belarus, although some progress is being made. Belarus is awash in pirated copies of video, audio and printed materials, as well as computer software. Belarus' draft law on intellectual property has been endorsed by the World Intellectual Property Organization (WIPO). Belarus will join the Berne Convention for the Protection of Literary and Artistic Works and the Geneva Phonogram Convention, following adoption of the bill. Belarus is also a member of the Paris Convention for the Protection of Industrial Property. In addition, Belarus is a member of the Universal Copyright Convention signed in the early 1950s by the Soviet Union.

Enforcement of these conventions has thus far proven weak, and membership has not generated sufficient momentum among Belarus officials to adequately protect patents and copyrights. Belarus passed a law on trademarks and service marks, both of which appear to be adequately protected. No data is available to estimate losses to United States firms as a result of video, audio and software pirating, most of which appears to come from Russia and Asia.

8. Worker Rights

a. *The Right of Association.*—The constitution upholds the right of workers, except state security and military personnel, to form and join independent unions on a voluntary basis and to carry out actions in defense of worker rights, including the right to strike. However, these rights are not generally recognized in practice.

Several independent trade unions exist, but most are in the early stages of development. The two major independent unions are the Free Trade Union of Belarus (SPB) and the Belarusian Independent Trade Union (BNP). The two formed the Congress of Free Trade Unions of Belarus, which coordinates the activities of over 16,000 members and serves as a resource center for the free trade union movement. The largest trade union remains the Belarusian branch of the former U.S.S.R.'s All Union Central Council of Trade Unions, which has five million members. It is not yet considered to be completely independent of the government.

b. *The Right to Organize and Bargain Collectively.*—Legislation dating from the Soviet era provides for the right to organize and bargain collectively. Since the economy is still largely in the hands of the state, unions usually seek redress at the political level. Workers and independent unions have recourse to the court system.

c. *Prohibition of Forced or Compulsory Labor.*—The 1994 constitution prohibits forced labor, and it is not known to occur.

d. *Minimum Age for Employment of Children.*—Current labor law establishes 16 years of age as the statutory minimum age of employment. With the written consent of one parent (or legal guardian), a child of 14 years may conclude a labor contract. Reportedly, the procurator general's office enforces this law effectively.

e. *Acceptable Conditions of Work.*—The President's administration sets the minimum wage, which is currently 60,000 rubles (less than $6.00). It must be periodically adjusted for inflation, but because the rate of inflation has fallen dramatically in 1995, there has only been one adjustment. The labor code sets a limit of 40 hours per work week and provides for at least one 24 hour rest period per week. Because of the difficult economic situation an increasing number of workers find themselves working less than 40 hours per week. Often factories require workers to take unpaid furloughs due to shortages of raw materials and energy, and lack of demand for factory output.

The law establishes minimum conditions for workplace safety and worker health; however, these standards are often ignored. Workers at many of Belarus' heavy ma-

chinery plants do not even wear minimal safety gear such as gloves, hard hats or welding glasses. A state labor inspectorate exists but does not have the authority to enforce compliance, and violations are often ignored.

f. Rights in Sectors With U.S. Investment.—There is no large scale U.S. investment in Belarus at this time, although some major companies are currently contemplating multi-million dollar investments. The Cabinet of Ministers passed a decree in the spring of 1995 removing workers' right to strike in certain sectors of the economy, such as transport, deemed vital to the state. Aside from this, the Embassy is not aware of sectors in which worker rights are significantly less protected than in others.

Data on U.S. investment in Belarus is not available.

BELGIUM

Key Economic Indicators

[Millions of U.S. dollars, except per capita GDP]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (at 1985 prices)[2]	162.1	172.4	200.9
Real GDP growth (percent)	−1.3	2.2	2.3
GDP (at current prices)[2]	206.4	226.3	267.8
GDP by Sector	N/A	N/A	N/A
Real per capita GDP (US$, 1985 prices)	16,210	17,170	20,092
Labor Force (000s)	4,266	4,285	4,298
Unemployment Rate (percent)	8.8	10.2	10.2
Money and Prices (annual percentage change):			
Money Supply (M1)	40.7	43.7	50.3
Base Interest Rate[3]	7.2	7.7	8.3
Personal Saving Rate	21.9	21.3	20.8
Retail Inflation	2.6	1.8	1.7
Wholesale Inflation	0.2	1.5	1.0
Consumer Price Index	2.7	1.9	1.7
Exchange Rate (BF/US$)	34.6	33.4	29.5
Balance of Payments and Trade:			
Total Exports FOB	111.3	115.6	139.0
Exports to U.S.	4.9	6.8	6.4
Total Imports CIF[4]	114.7	117.5	141.3
Imports from U.S.	5.2	6.1	7.5
External public debt	43.9	40.4	42.0
Gold and Foreign Exchange Reserves	21.0	20.7	23.1
Trade Balance[4]	−3.4	−1.9	−2.3
Balance with U.S.	−0.3	−0.4	−1.1

[1] 1995 figures are all estimates based on monthly data available in October 1995.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates.
[4] Merchandise trade.

1. General Policy Framework

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the ninth-largest trading country in the world in 1994, with exports and imports each equivalent to about 65 percent of GDP. Three-quarters of Belgium's trade is with other European Union (EU) members. Only five percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970's and the 1980's, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1992, debt was equal to

127 percent of GDP. Because of the high Belgian savings rate, Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 15 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit to 3.0 percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. Since 1992, the Belgian government has implemented budgetary austerity measures worth more than $20 billion, or about 8.0 percent of GDP. Even though 75 percent of these measures were revenue increases rather than expenditure cuts, they had the advantage of being mostly structural in nature, as opposed to one-time measures. The deficit declined to 5.3 percent of GDP in 1994 and is budgeted at 4.4 percent of GDP in 1995. The government's 1996 budget, presented in October 1995, provides for a 3.0 percent deficit and a reduction in the debt/GDP ratio to 131 percent (from a 1994 peak of 137 percent). Belgium has virtually no chance of reaching the Maastricht Treaty debt/GDP target of 60 percent, but expects to demonstrate sustained progress towards the target in order to qualify for early EMU membership.

Belgium's recession in 1993 was the most severe in the EU after Germany's. The budget measures adopted by the government in 1992 and subsequent years have imposed a drag on the economy's recovery estimated at a reduction in GDP growth rates of between 0.2 and 0.5 percent. Unemployment remains stubbornly high at ten percent of the workforce (by EU and OECD standardized definitions) due to the slow pace of the recovery, high labor costs (especially non-wage costs) and structural mismatches in skills and the geographic distribution of labor and employment opportunities.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of the three regions of Brussels, Flanders and Wallonia. Each region was given substantial economic powers, such as trade promotion, industrial development, research and environmental regulation.

2. Exchange Rate Policies

Belgian monetary policy basically shadows German interest rates closely in order to keep the Belgian Franc (BF) close to its central parity with the Deutsche Mark (DM) within the European Monetary System's Exchange Rate Mechanism (ERM). Since 1990, the National Bank of Belgium (NBB) has sought 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 ERM required. The result has been low inflation (even below Germany's level) and a much-reduced interest rate premium over German bonds.

The near collapse of the ERM in July 1993 placed enormous pressures on this "strong franc" policy as currency traders focussed on Belgium's high debt and budget imbalance. The NBB and government used high short-term interest rates, jawboning and currency market interventions to support the BF. Although the BF slipped by about seven percent against the central parity rate with the DM, it regained its parity by late 1993. Since then, the BF has remained within two percent of its DM parity. This has meant an appreciation of the BF against the U.S. dollar and weaker European currencies. Belgian manufacturers have complained about the impact of the BF's appreciation on their competitiveness, particularly compared to weak-currency Europeans such as Spain and Italy.

3. Structural Policies

Belgium is a very open economy, as is witnessed by its high levels of exports and imports as a ratio to GDP (65 percent each). Belgium does not discriminate between foreign and domestic investors. Belgium generally discourages protectionism. The federal government actively encourages foreign investment on a national treatment basis.

Tax policies: 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. Small companies pay a rate ranging from 29 to 37 percent. Branches and 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 a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent. Despite the reforms of the past five years, the Belgian tax system is still characterized by relatively high marginal rates and a fairly narrow base resulting from numerous exemptions. 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. Total taxes as a percent of GDP are the fifth highest among OECD countries.

Taxes on capital are by comparison quite low: in October 1995, the Belgian government reduced the tax rate on interest income to 15 percent, while maintaining the tax rate on dividends at 25 percent for residents. There is no tax on capital gains.

The United States and Belgium have a treaty avoiding double taxation for U.S. companies operating in Belgium. Known as the "circular regime", it grants certain major exemptions from Belgian taxation and has been considered generally satisfactory by the American business community in Belgium.

Regulatory policies: The only areas where price controls are effectively in place concern energy, household leases and the price of pharmaceuticals. With the possible exception of the latter, none of these has any significant impact on U.S. business in Belgium.

4. Debt Management Policies

Belgium is a member of the G–10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant donor nation, and it closely follows development and debt issues, particularly with respect to Zaire (where development aid flows are still frozen) and some other African nations.

Belgium is a net external creditor, the household sector's foreign assets growth exceeding the external debts of the public and corporate sectors. 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 reflect Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the 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 1991, as well as greater independence granted in 1993 to the National Bank of Belgium, direct financing in Belgian francs by the Treasury through the central bank has become impossible.

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly.

Some barriers to services and commodity trade still exist,however, including:

—Telecommunications: The Federal government is gradually opening up the traditionally monopolistic telecom sector. In July 1995, a second cellular license was issued. That same month, the government decided to open up to 49 percent of Belgacom, the public telephone operator, to privatization through sale to a foreign partner. However, foreign suppliers of equipment still complain that they face an unequal battle with the "national champions." There is also a dispute regarding the directory costs Belgacom charges publishers for access to the necessary subscriber data.

—Ecotaxes: The Belgian government has passed a series of ecotaxes, in order to redirect consumer buying patterns away from environmentally damaging materials. These taxes will raise costs for some 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.

—Opening the retail service sector to U.S. firms: During the last two years, the large U.S. retail chain, Toys R Us, has experienced considerable difficulties in obtaining permits to open 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.

—Military offset programs: Belgian military procurement 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 firms 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. In February 1995, a special commission of the Belgian Chamber of Representatives approved the continuing practice of military offset programs, albeit under the condition of a stricter control by parliament.

—Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage 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 the francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT cartoons still has judicial problems in distributing its signal in Belgium, while NBC and Viacom, via their majority interest in the TV4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion. 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-owned 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 Convention, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products. For software, the figures of pirated copies has dropped from 58 to 46 percent in one year, still representing a loss of $700 million to rights holders.

Copyright: On June 30, 1994, the Belgian Senate gave its final approval to the revised Belgian copyright law. National treatment standards were introduced in the blank tape levy provisions of the new law, replacing reciprocity standards, which would have denied payments to U.S. firms. Problems regarding first fixation and non-assignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. The most recent estimate is that U.S. authors and producers will receive some $6 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 established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. *The Right of Association.*—Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities, and Belgian workers in fact fully and freely exercise their right of association. About 60 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and retired workers. Unions are independent of the government, but have important links with major political parties. As the government does not require unions to register, there are no prohibitions against anti-union actions before registration. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies. However, the International Confederation of Free Trade Unions (ICFTU) in 1995 noted that "the right to strike was being increasingly undermined by employers and the judiciary." The ICFTU cited an "increasing tendency over the last few years for employers to seek the intervention of the courts in order to ban strikes or break up picket lines." It is easier today to get an injunction against a strike if it can be shown to a judge's satisfaction that violence or an infringement of private property has occurred in the course of a strike.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of Belgian workers are covered by collective bargaining agreements. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. *Minimum Age for Employment of Children.*—The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs, but may not work full time except on limited duration summer-labor contracts of up to 30 days. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. *Acceptable Conditions of Work.*—In June 1995, the monthly national minimum wage rate for workers over 21 was set at 43,318 Belgian francs (U.S. dollars 1,494). The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard workweek cannot exceed 40 hours and must at least have one 24-hour rest period.

f. *Rights in Sectors With U.S. Investment.*—U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		318
Total Manufacturing		7,108
Food & Kindred Products	654	
Chemicals and Allied Products	4,657	
Metals, Primary & Fabricated	188	
Machinery, except Electrical	71	
Electric & Electronic Equipment	177	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		1,816
Banking		245
Finance/Insurance/Real Estate		3,175
Services		1,260
Other Industries		43
TOTAL ALL INDUSTRIES		13,966

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

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

BOSNIA-HERZEGOVINA

With the Dayton Peace Accords, Bosnia-Herzegovina ended its civil war and agreed to the outline of a governing structure for the future. To this day, however, Bosnia remains a war torn country with little economic activity beyond smuggling, distribution of humanitarian supplies and weapons production. Bosnia conducted virtually no trade with the United States in 1995.

War damage continues to hamper economic activity. A reported 40 percent of Bosnia's bridges have been destroyed, along with 35 percent of its roads and 50 percent of its power stations and telecommunications facilities. Reconstruction work will require up to five billion dollars over the next three years.

Prospects for the future have improved dramatically since the initialing of the Dayton Peace Accords. Much work remains to be done, however, before Bosnia accounts for more than a tiny fraction of U.S. trade. First, sound institutions will have to be created to provide a structure for economic development. Second, macroeconomic policy will have to be managed carefully in order to accommodate massive infusions of predicted economic aid without fuelling inflation. Third, the Bosnians will have to accept fundamental economic reform and agree to a restructuring of their Socialist-vintage economy.

If Bosnia is successful in maintaining economic control and proceeding with reform, prospects for rapid growth are evident. It is possible to project even double digit growth of GDP over the next several years. Much depends on the stated willingness of a number of international donors to contribute to Bosnian reconstruction.

Data on key economic indicators and U.S. investment in Bosnia-Herzegovina is not available.

BULGARIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1993 prices)[2 3]	10,812	10,981	11,200
Real GDP Growth (percent)[3 4]	−2.0	1.4	2.4
GDP (at current prices)[2 4]	10,812	10,018	11,275
GDP by Sector:[2 3 4]			
Industry	4,236	3,607	4,047
Agriculture	1,082	1,127	1,265
Trade and Services	5,336	4,635	5,200
Real Per Capita GDP (1993 USD)[2 3]	1,285	1,297	1,318
Labor Force (000s)[2 3]	3,787	3,827	3,804
Unemployment Rate (percent)[2 3]	15.8	14.1	11.9
Money and Prices:			
Money Supply (M2, percent growth)[2 3]	52.8	78.6	55
Base Interest Rate[2 5]	48.2	63.8	50
Retail Inflation[2 3]	63.9	121.9	35
Consumer Price Index[2 3] (Dec. 1992=100)	164	363.9	491.3
Producer Price Index (industrial) (Dec. 1992=100)	124.9	256.4	N/A
Exchange Rate (Lev/US$—annual average):.			
Official[6]	27.6	54.2	66.7
Parallel	28.7	56.4	69.4
Balance of Trade and Payments:[2 3 4]			
Total Exports (FOB)	3,913	4,156	4,600
Exports to U.S.	115	195	310
Total Imports (FOB)	5,311	4,316	4,468
Imports from U.S.	159	118	160
Aid from U.S. (Fiscal Year)	45.9	43.0	42.7
Aid from Other Countries (including international financial institutions)	154	1,097	N/A
External Public Debt (US$ billions)	12.5	10.4	10.3
Annual Debt Service Paid[7]	88.8	850	275
Gold and Foreign Exchange Reserves (US$ billions)	1.5	1.0	1.5
Trade Balance	−1,398	−159.5	132

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Balance with U.S.	43.4	77	150

[1] 1995 figures are estimates for year-end.
[2] Government of Bulgaria.
[3] Embassy Estimate.
[4] International Financial Institutions.
[5] BNB basic (lombard) refinancing rate (period average).
[6] Rate depreciated from 32.7:1 to 66:0 from January to December 1994.
[7] 1995 figure is for first six months.

1. General Policy Framework

Bulgaria is a parliamentary republic ruled by a democratically elected government. It has successfully conducted several rounds of democratic elections since 1989, including the country's first direct presidential elections in 1992. Bulgaria's transition to a market economy continued during 1995, albeit slowly and against political and social resistance. After several years of weak technocratic government in the country, the Bulgarian Socialist Party (BSP — successor to the Communist Party) won an outright majority in the parliamentary elections of December 1994. Under the leadership of Prime Minister Zhan Videnov, the BSP government has focussed on managing the economic situation, with the state taking a more active role than under previous governments. The Videnov government has progressed slowly, but important economic legislation has been promulgated, and the government has pushed forward with the mass privatization program. Having bottomed out in 1994, Bulgaria's economy appears to be rebounding, with 2.4 percent growth forecast for 1995, and is expected to gain momentum well into 1996. Unemployment also declined in 1995, but is unlikely to fall much further. Bulgaria is recovering somewhat from multiple blows to its terms of trade in the early 1990s.

Inflation exploded to 122 percent in 1994, fuelled primarily by a price policy that suppressed increases but raised inflationary expectations. The imposition of the value-added tax in April 1994 precipitated further inflationary pressures. Inflation rates dropped during the first eight months of 1995, although September's monthly inflation jumped to 4.8 percent after the government increased energy prices by 25 percent on September 1, and 1995 annual inflation is expected to fall in the range of 35–40 percent. The Bulgarian National Bank (BNB) is pursuing a moderately restrictive monetary policy to maintain exchange rate stability and control inflation.

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. The lev/dollar rate stabilized during 1995, and the BNB was able to reduce interest rates while controlling commercial bank liquidity through changes in reserve requirements, using open market operations to sterilize foreign exchange inflows. However, the BNB's failure to deal with the precarious condition of two troubled state banks remains a serious concern. Despite stagnation in the standard of living during 1995, exports of U.S. consumer goods to Bulgaria have risen, given the relative weakness of the dollar versus European convertible currencies.

Although the government came close to achieving its IMF-agreed 1994 budget deficit target of 6.5 percent of GDP (unofficial estimates place the deficit at 6.7 percent of GDP), there is some skepticism that it will be able to keep to the ambitious 1995 target of 5.7 percent. As of mid-year, actual revenues, especially those from the VAT, were significantly below 1995 budget projections. The VAT and excise taxes continue to be the government's most lucrative taxes, while revised income and profits tax bills have yet to be passed by Parliament. The government financed the deficit through a combination of central bank borrowing and treasury bill sales.

In 1994, Bulgaria rescheduled its 1993 and 1994 maturities with the Paris Club (official creditors) and restructured $8.1 billion in commercial (London Club) debt, resulting in a 47 percent reduction. Bulgaria received $334 million from the International Monetary Fund (IMF) in 1994 as a result of a stand-by agreement, but agreement has not been reached in 1995 on the terms of a fourth stand-by arrangement. There will be a mounting need for Bulgaria to reach agreement as external debt servicing payments rise sharply beginning in 1996.

Structural reforms necessary to underpin macroeconomic stabilization were not pursued vigorously during 1995. Restitution of urban shops and houses had already put capital into the hands of many ordinary Bulgarians, helping fuel rapidly growing service and consumer goods sectors. Preparations for mass (voucher) privatiza-

tion were being finalized at the end of 1995, but "cash" privatization of state-owned industry continued to move slowly. In the spring, controversial amendments to the 1992 Land Law threatened to further delay the break-up of state-organized collective farms, but many provisions were struck down by the Constitutional Court. The BSP has indicated it will reintroduce similar provisions; meanwhile, the restitution process is still incomplete.

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. Bulgaria views eventual EU membership as a key foreign policy goal, and was particularly concerned when the EU placed Bulgaria on a "negative list" of countries for purposes of travel to the EU. Bulgaria continues to pursue its objective of acceding to the World Trade Organization, but negotiations were still not concluded by the end of 1995. The Bilateral Investment Treaty with the United States was ratified by the U.S. Senate and took effect in June 1994. A bilateral treaty for avoidance of double taxation remains in limbo, pending enactment of tax reform legislation by Bulgaria.

2. Exchange Rate Policies

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. The Lev depreciated from 32.7 to 66 per U.S. dollar between December 1993 and December 1994, with a particularly dramatic fall in March 1994. The lev/dollar rate has been fairly stable in 1995, with some slight depreciation in the third quarter.

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. For goods such as autos and some machine tools, the United States remains largely price competitive with Western Europe and Japan.

Only some of the commercial banks are licensed to effect currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Companies are required to repatriate, but no longer to surrender, earned foreign exchange to the central bank. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings, except that profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for four years, and initial capital for ten years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

3. Structural Policies

Bulgaria's 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. However, the law is not being duly applied, as banks are hesitant to initiate proceedings against large state-owned companies for fear of causing their own insolvency or creating a domino effect on other companies. Moreover, no reorganizations have yet been completed; judges and courts have no prior experience in company reorganizations and there is an absence of trained professional trustees. In general, implementation of reforms is hindered by slow decision-making, parliamentary delays (despite the presence of a BSP majority), and bureaucratic red tape.

The Videnov government has nevertheless promulgated some important if at times controversial legislation: the Law on Securities, Stock Exchanges and Investment Companies (which is likely to lead to the formation of a single state-run stock exchange); Law on Prices (whose effect is still undetermined but could bring about more price control); Law on Concessions (which lacks provisions for grandfathering existing activities); amendments to the Law on Customs; amendments to the Regulations on the Application of Decree Number 56 on Business Activity; and amendments to the Penal Code. The government has also pushed forward with the mass privatization program, patterned on the Czech voucher system. After lengthy delays, the program was close to implementation in November 1995. To date, market privatization has stagnated, although the government has developed an ambitious plan to accelerate the process. The government program calls for the privatization of 618

enterprises (20 percent) by the end of 1995; only 110 transactions were completed by mid-year. 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 in 1994, Bulgaria took a significant step in reforming its tax system. However, the revised Income and Profits Tax laws still have not been adopted by 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.

4. Debt Management Policies

Bulgaria's former Communist regime more than doubled the country's external debt from 1985 to 1990. With more than $10 billion outstanding, the government declared a debt service moratorium in March 1990. Bulgaria continued to service three small convertible-currency bond issues, and resumed partial servicing of its debt in late 1992.

In April 1994, Bulgaria rescheduled its official ("Paris Club") debt for 1993 and 1994. In June of that year, it concluded a Brady plan-type agreement to reschedule $8.1 billion of its debt to commercial creditors ("London Club"). 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 beginning in 1996. In addition to its external debt (which totaled over $10 billion at the end of 1994), Bulgaria's growing domestic debt burden has been estimated at close to one-half of GDP.

After protracted negotiations, the IMF approved a one-year standby agreement/structural transformation facility of approximately $410 million for Bulgaria in February 1994. To support the IMF stabilization program, the G–24 countries pledged $330 million 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 second tranche and $100 million in Japanese matching funds. IMF funds were used to cover a portion of the initial payment of Bulgaria's London Club rescheduling. However, Bulgaria fell out of compliance with performance criteria, and IMF funding was discontinued after the third quarter of 1994. The stand-by agreement expired in March 1995, and conclusion of a fourth standby agreement is not expected until 1996. The IMF is seeking the reduction of Bulgaria's internal deficit, liquidation of non-viable state enterprises, acceleration of privatization, and restructuring of the banking sector. The IMF also maintains the prerequisite that Bulgaria first reach agreement with the World Bank on structural reform conditions for a Financial and Enterprise Structural Adjustment Loan (FESAL).

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. 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 negatively affected U.S. exports. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government of Bulgaria to trade in arms. Dual-use items are also controlled. (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 expressed its interest in membership in the COCOM successor regime, the "New Forum," currently under negotiation.)

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. The testing and certification process generally requires at least two months. All imports of goods 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.-Bul-

garian Bilateral Investment Treaty signed in September 1992. However, in February 1995, restrictions were enacted on the repatriation of profits and dividends related to privatization transactions involving Brady bonds. Specifically, if Brady bonds were used for half the purchase price, profits and initial capital may not be repatriated for a period of four years and ten years, respectively. 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. We understand that a soon-to-be enacted arms and dual use export control law will require that firms exporting arms and military equipment from Bulgaria have majority Bulgarian ownership and control.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. Bulgaria committed itself in the 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. Foreign investors also complain that massive tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially-precarious, state-owned companies places the foreign investor at a real disadvantage.

There is no legal requirement for the Bulgarian government to procure only local goods and services. Government procurement works mostly by competitively-bid international tenders. There have been problems of lack of clarity in many tendering procedures (e.g. the extension of the E–80 superhighway from Plovdiv to the Turkish border). U.S. investors are also finding that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria.

Bulgaria's new harmonized tariff schedule increased average tariffs, while reducing the overall range of tariff rates and eliminating spikes. Customs duties are paid ad valorem according to the tariff schedule. A one percent customs clearance fee is assessed on all imports and exports. Bulgaria applies the single administrative document used by European Community members. The import tax has been progressively reduced to 1 percent in 1995 and is to be discontinued in 1996. An export tax (on mainly agricultural products) was implemented in December 1994.

Imports from the United States are assessed at the most-favored-nation (MFN) rate, and the U.S. Government has recommended to Congress Bulgaria's full "graduation" from Jackson-Vanik requirements. Bulgaria's Association Agreement with the European Union significantly lowered tariffs and modified quantitative restrictions on goods originating in the EU. U.S. exporters to Bulgaria frequently inform us that their exports have been 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 WTO.

6. Export Subsidies Policies

The Bulgarian government applies no export subsidies as such at the present (though many state enterprises are indirectly subsidized with soft loans through the banking system). However, the 1995 Law for the Protection of Agricultural Producers established a State Fund for Agriculture whose regulations give it the authority to stimulate the export of agricultural and food products through export subsidies or export guarantees.

7. Protection of U.S. Intellectual Property

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. In April 1995, following a government-to-government exchange of letters with the United States, Bulgaria agreed to strengthen copyright protection and enforcement. Since then, Bulgaria has become a signatory to the 1961 Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations (September 1995) and the 1973 Geneva Phonograms Convention (August 1995). Bulgaria also amended its Penal Code to criminalize pirating activities and make them punishable with imprisonment. Bulgaria's third major piece of IPR legislation, the Trade Mark and Industrial Design Law, is in need of updating but considered adequate overall. A revision is expected during 1996. 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, although the government is planning to create an interministerial committee to address copyright enforcement issues and is working with private international IPR organizations. Video, compact disc, and computer program piracy have been widespread. Infringement of trademarks and trade dress is also a problem for many U.S. consumer products manufacturers. While the law allows for confiscation of offending products, infringement is deemed a misdemeanor under the Penal Code and subject to a nominal fine which does not act as a deterrent. The U.S. embassy is not aware of any difficulties of U.S. companies in obtaining and exploiting patent rights. A U.S. pharmaceuticals company encountered a violation of one of its transitional patents in the course of completing the drug registration process; the National Drug Institute and the Ministry of Health have been taking steps to deregister the infringing product. In early 1995, the International Intellectual Property Alliance estimated total 1994 trade losses for the United States of $154.5 million due to piracy.

8. Worker Rights

a. *The Right of Association.*—The 1991 Constitution guarantees the right of all workers to form or join trade unions of their own choice. This right appears to have been freely exercised in 1995. 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, the successor to the trade union controlled by the former Communist regime, which now operates as an independent entity. Podkrepa, an independent confederation created in 1989, was one of the earliest opposition organizations, 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 Tripartite Coordination Council (NTCC), which includes employers and government. In February 1995, a third trade union confederation, the Community of Free Union Organizations in Bulgaria (CFUOB), was admitted to the NTCC; CITUB and Podkrepa filed a joint complaint to the International Labor Organization (ILO) against the Government's selection of the CFUOB as the labor delegate to the ILO's 82nd session. The Labor Code passed in December 1992 recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Military, police, energy production and supply, and health sectors are defined as essential services, and workers in these sectors are restricted from striking.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code institutes collective bargaining, which is practiced both nationally and on a local level. Only the three members of the NTCC 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 NTCC members. Smaller unions also complained that they are excluded from the NTCC.

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 for Employment of Children.*—The Labor Code sets the minimum age for employment of children at 16, and 18 for dangerous work. Employers and the Ministry of Labor and Social Welfare are responsible for enforcing these provisions. While child labor laws are enforced well in the formal sector, underage employment is increasing in the informal and agricultural sectors as collective farms are broken up and the private sector continues to grow.

e. *Acceptable Conditions of Work.*—The national monthly minimum wage was approximately $38 (2,555 leva) at the end of 1995. The minimum wage was not enough to provide a wage earner and family a decent standard of living. The Constitution stipulates the right to social security and welfare aid and assistance for the temporarily unemployed, although in practice such assistance is often either late or not disbursed. 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 1995. Of the nine sectors covered in the Trade Act Report, only the "Food and Related Products," "Electric and Electronic Equipment," "Primary and Fabricated Metals," and "Other Manufacturing" sectors have an active U.S. presence

as of late 1995. Conditions do not significantly differ in these sectors from the rest of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

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

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

CANADA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real Gross Domestic Product (billions of 1986 US$)[1]	443.3	437.7	[2]435.2
GDP Growth Rate (percent)[3]	2.2	4.6	[4]2.5
Real GDP by Sector (millions of 1986 US$):.			
Manufacturing	71,077	71,728	[2]75,056
Finance/Insurance/Real Estate	63,686	61,610	[2]62,762
Trade	46,730	47,387	[2]48,362
Community, Business and Personal Services	48,266	47,124	[2]48,909
Transportation/Communications	32,425	32,680	[2]34,215
Construction	21,598	21,487	[2]20,889
Mining	16,548	16,605	[2]17,346
Agriculture	8,329	8,242	[2]8,152
Utilities	12,419	12,267	[2]12,615
Logging and Forestry	2,020	2,005	[2]1,963
Per Capita Personal Disposable Income (US$)	13,059	12,343	[2]12,694
Personal Savings Rate (percent)	9.5	7.9	[2]7.7
Total Labor Force (000's)	14,666	14,832	[5]14,931
Unemployment Rate (percent)	11.2	10.4	[5]9.5
Money, Interest Rates, Prices (end of period):			
Money Supply (M2, Seasonally Adjusted)	275,115	266,976	[6]278,672
Bank of Canada Rate (percent)	4.11	7.43	[7]6.71
Chartered Banks' Prime Rate (pct)	5.50	8.00	[7]8.00
Consumer Price Index (1986=100)	130.4	130.7	[7]133.9
Annual Percent Change	1.8	0.2	[7]2.3

Key Economic Indicators—Continued

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

	1993	1994	1995
Exchange Rate: C$1=US cents	77.53	73.21	[7] 73.78
Balance of Payments and Trade:			
Merchandise Exports	140,524	159,491	[8] 187,031
Exports to U.S.	112,347	130,277	[8] 151,048
Merchandise Imports	133,296	148,475	[8] 172,136
Imports from U.S.	97,566	111,005	[8] 128,478
Merchandise Trade Balance	7,228	11,016	[8] 14,895
Balance with U.S.	14,781	19,272	[8] 22,570
Gold and Official Reserves	13,068	12,673	[7] 16,384
Total Federal Debt (FY) (US$ billion accum. deficits)	393.9	399.7	[9] 427.2

[1] Time series data is distorted because of exchange rate fluctuations. Real GDP in billions of 1986 C$ was C$571.7 in 1993, C$597.9 in 1994 and C$609.1 in IIQ 1995.
[2] Second quarter (IIQ) 1995 (actual data), seasonally adjusted at an annual rate.
[3] Percent changes are calculated on real GDP data expressed in C$.
[4] Percent change between IIQ 1995 and IIQ 1994.
[5] Third quarter average.
[6] M1+chartered banks non-personal notice deposits+personal savings deposits, as of 9/30/95.
[7] Third quarter end of period.
[8] First half of 1995 annualized.
[9] Federal Govt. projection for FY 1995–96. 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 Wheat Board, and provincial electric utilities still play an important role in the economy.

Canada is the largest single trading partner of the United States. Although Canada developed as an exporter of natural resources and related products, the economy is now fully industrialized and produces highly sophisticated consumer goods and capital equipment. Canada's annualized merchandise exports to the U.S. in the first half of 1995 were US$151 billion, and annualized merchandise imports from the U.S. were US$128.5 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 1994 was US$108 billion, of which US$70 billion or 65 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.

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 FY 1994–95 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 charged 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 Policies

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis to try to maintain orderly trading conditions and smooth rate movements.

3. Structural Policies

Prices for most goods and services are established by the market without government involvement. The most important exceptions to market pricing are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products).

The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the U.S.

Federal government regulatory regimes affect foreign investment (see section 5 below) 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 (CFTA). 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 the remaining barriers among banks, trust companies and insurance companies.

Transportation policies: The Canada Transportation Act (Bill C–101), which is now before Parliament and will replace the National Transportation Act, is intended to enhance the viability of the railway industry and to eliminate duplication and unnecessary regulation of all modes of transportation.

Aviation is not included in the NAFTA. On February 24, 1995, the United States and Canada signed a new Air Transport Agreement which immediately eliminated most restrictions on air service between the two countries and will virtually deregulate the transborder market over three years.

Telecommunications policies: Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. While the Act restricts foreign ownership of telecommunications firms to 20 percent of the voting shares, the Canadian Telecommunications Common Carrier Ownership and Control Regulations enacted under the Act effectively increase that limit by defining as Canadian a corporation or other entity which has less than one-third of its voting shares owned by non-Canadians. 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$233 billion (43 percent of GDP) in 1994. While this indicates an improvement from 1993, it nevertheless is 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 CFTA was suspended on January 1, 1994, with the inauguration of the North America Free Trade Agreement (NAFTA), which expands the free trade area to Mexico. The NAFTA expanded on the CFTA in the areas of services, investment and government procurement. Canada has passed legislation to implement the Uruguay Round agreement under the GATT.

Nevertheless, a number of Canadian practices constitute barriers to U.S. exports to Canada.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), fresh fruit and vegetables, potatoes, processed horticultural products and live swine. The US continues to pursue these issues bilaterally. Regarding

the supply managed commodities, the U.S. government has requested a Chapter 20 (dispute settlement) panel 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 Free Trade Agreement addressed a number of these policies (listing, distribution, and pricing) and provides dispute settlement procedures. Provincial beer distribution practices were grandfathered under the CFTA but were challenged by the U.S. under the General Agreement on Tariffs and Trade (GATT). The U.S. and Canada concluded a Memorandum of Understanding in August 1993 which significantly improves access to the Canadian market for U.S. beer. However, U.S. exporters remain unhappy about provincial minimum import price requirements and cost-of-service issues hinder the importation of U.S. wine.

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.

Although the area of standards and labeling continues to require attention, considerable progress has been made in the accreditation of U.S. standards organizations involved in certification, quality registration and testing. Canada's accreditation agency, the Standards Council of Canada (SCC), has thus far accredited three major U.S. certification organizations, and applications from four additional U.S. certification organizations are currently under review. In the area of quality registration, two U.S. companies have received accreditation from SCC to date.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access. Under the Canadian Goods Abroad Program, Canadian goods sent to the United States for non-warranty repairs, additions or transformations, are dutiable on the full value of the goods plus the value of the services performed abroad if the work could have been done by a Canadian firm within a "reasonable distance."

Canada restricts the direct export of Pacific salmon and herring by requiring that a portion of the Canadian catch be landed in Canada before being exported. An interim agreement reached following CFTA 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 1994, technical changes were made in the requirements for licencees. The USG 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. In cases where dumping margins have been imposed, determinations have put U.S. exporters at a significant price disadvantage. Both Canadian and U.S. companies have brought challenges under NAFTA Chapter 19 dispute settlement provisions to anti-dumping and countervailing duty determinations.

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 CFTA) 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 ex-

isting 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 policy 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 CFTA 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 CFTA 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. This policy is one of Canada's most objectionable government procurement practices.

6. Export Subsidies Policies

In 1995, the Canadian government ended subsidies under the Western Grains Transportation Act (WGTA) for the rail transportation of western grown wheat, barley, oats and many other agricultural commodities intended for export. By doing so, Canada exceeded its WTO commitments to reduce export subsidies for these products. To compensate farmers for the cut, the federal government has promised a C$1.6 billion lump sum payout, a C$300 million adjustment assistance fund, and C$1 billion in new export credit guarantees for agricultural products, including C$700 million for western wheat and barley.

Under the provisions of the CFTA, Canada has agreed to terminate its production-based duty remission program by the start of 1996 and to limit application of the program to the four companies with which agreements were already in place (including subsidiaries of the three major North American automakers).

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.

In 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 grantedexplicit copyright protection for computer programs, andprovided a right of payment for retransmission of broadcastprogramming as required by the CFTA.

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. The statutory school-leaving age in all provinces is 16.

e. *Acceptable Conditions of Work.*—Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. *Rights in Sectors With U.S. Investment.*—Worker rights are the same in all sectors, including those with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		8,553
Total Manufacturing		35,037
Food & Kindred Products	3,600	
Chemicals and Allied Products	5,856	
Metals, Primary & Fabricated	2,822	
Machinery, except Electrical	2,024	
Electric & Electronic Equipment	1,820	
Transportation Equipment	8,548	
Other Manufacturing	10,369	
Wholesale Trade		7,006
Banking		792
Finance/Insurance/Real Estate		12,159
Services		3,509
Other Industries		5,751
TOTAL ALL INDUSTRIES		72,808

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

CROATIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:[2]			
GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (percent)	−3.2	0.8	1.0
GDP (at current prices)[3]	11,654	14,025	16,937
GDP by Sector:			
Agriculture	1,229	1,544	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Energy/Water	22	27	N/A
Manufacturing	3,527	3,928	N/A
Construction	249	299	N/A
Rents	1,770	2,130	N/A
Financial Services	878	1,125	N/A
Other Services	2,284	2,879	N/A
Government/Health/Education	1,693	2,093	N/A
Net Export of Goods and Services	305	209	N/A
Real Per Capita GDP	N/A	N/A	N/A
Labor Force (000s)	1,316	1,304	1,240
Unemployment Rate (percent)	19.0	18.7	18.8
Money and Prices (annual percentage growth):			
Money Supply (M3)[4]	1,092.7	74.9	42.0
Base Interest Rate[5]	59.0	15.4	22.6
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	1,149.7	−3.0	4.0
Wholesale Inflation	1,075.6	−5.5	1.0
Consumer Prices	1,124.3	2.5	4.0
Exchange Rate (HRK/US$)[3]	3.5879	5.9926	5.2100
Balance of Payments and Trade:			
Total Exports (FOB)	3,904	4,260	4,480
Exports to U.S.	69	88	82
Total Imports (CIF)	4,666	5,230	6,680
Imports from U.S.	124	172	206
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	2,638	3,024	3,130
Debt Service Payments (paid)	621	550	593
Gold and Foreign Exchange Reserves	612	1,405	2,000
Trade Balance	−763	−970	−2,200
Balance with U.S.	−55	−84	−124

[1] 1995 figures are all estimates based on the most recent available monthly data.
[2] Instead of Gross Domestic Product, the former Yugoslavia calculated Gross Social Product which excluded government, housing, financial services and some personal services. Official GDP statistics are not yet available for Croatia. The GDP data provided above are based on a study in the journal "Privredna Kretanja i Ekonomska Politika" (No. 41, July 1995) published by the Economic Institute—Zagreb and The National Bank of Croatia.
[3] Average Annual Exchange Rate of the National Bank of Croatia (1993–94) and January through September (1995).
[4] M2 plus liquid foreign currency denominated deposits.
[5] Interest rates are Average Annual Credit Rates at Deposit Money Banks in December (1993–94) and June (1995).

1. General Policy Framework

Croatia has enjoyed almost two years of low, single digit inflation since the introduction of the stabilization program in October, 1993. This price stability was achieved by means of tight monetary, fiscal and incomes policies. The cost of these measures can be seen in an initial drop in real income, continuing high unemployment and low economic growth. The Government has succeeded in balancing the budget but, with the economy on a war footing, defense accounts for almost 40 percent of core government expenditures or almost 15 percent of estimated GDP in 1995. This leaves little revenue for investment in basic infrastructure and reconstruction. However, having retaken most of the Serb-occupied parts of the country and with improved prospects for peace in the region, there is reason to hope that defense expenditures may be reduced in the future.

Low inflation and a positive balance of payments have allowed the Croatian Government to stabilize the exchange rate of the Croatian currency, called the Kuna. Since the beginning of 1994, the Kuna has appreciated against the dollar almost 25 percent while staying more or less even with the German Mark. The result has been a surge in imports, which were 75 percent higher during the first eight months of 1995 versus the same period the previous year. At the same time, the growth in

exports slowed and reversed itself by midyear, leading to an ever growing deficit in the balance of trade which is likely to exceed two billion dollars in 1995. The deficit is offset in part by a positive services balance (mostly tourism) but mostly by a large increase in transfers from abroad. Since most of this capital influx is unregistered, it is not clear to what extent it represents reverse capital flight or a negative development, that of people in straitened circumstances forced to draw down on savings held abroad or receiving help from friends and relatives.

After initially slamming on the monetary brakes and devaluing the currency by 20 percent to eliminate inflationary expectations in late 1993, the National Bank of Croatia has pursued a largely passive monetary policy, expanding the money supply more or less in line with the increase in foreign exchange reserves. The increased demand for money (and decrease in velocity) following the elimination of inflation have allowed for a fairly rapid remonetization of the economy. However, when the expansion of the money supply has threatened a resurgence of inflation, the National Bank has restricted conversion of foreign exchange and increased the reserve requirement at commercial banks.

Croatia's efforts at structural reform have been less successful than the campaign to eliminate inflation. Although over two thousand mostly small firms have been totally or partially privatized, progress in the area of large, socially-owned conglomerates has been slow. Efforts to restructure major industries such as shipbuilding, steel, and food processing have been halting. The principal stumbling block has been the added unemployment that such restructuring would entail. Likewise, bank rehabilitation has been stymied by the inability and/or unwillingness of the banks and companies to work out their problem loans through the traditional tools of restructuring or bankruptcy. The increased demand for money following stabilization allowed the commercial banking system temporarily to continue financing losses at socially-owned enterprises without risking renewed inflation.

At the beginning of 1995, the Government recognized the need to come to grips with the problem posed by these companies. Under a new privatization strategy, the sale of all remaining socially-owned enterprises (approximately 500) would be completed within two years. The strategy would include mass privatization and direct sales to domestic and foreign investors. Credit is being cut off to loss-making enterprises, programs are being worked out to restructure the shipbuilding and steel industry, and bank rehabilitation has begun in earnest with the intervention of two medium sized regional banks and the promise of more to follow.

2. Exchange Rate Policies

The Croatian Government has implemented a managed float loosely pegged to the German Mark but in theory responsive to the forces of demand and supply. The Kuna is freely convertible into foreign currency in banks and foreign exchange houses at rates close to those of the National Bank of Croatia. Occasionally, the central bank restricts its purchases of foreign exchange, making it difficult to convert foreign currency into Kuna. Following the introduction of the stabilization program, previous restrictions on the purchase of foreign exchange, premiums above the official rate and the foreign currency black market which thrived before the stabilization program have totally disappeared.

3. Structural Policies

The Croatian Government introduced new personal and corporate income taxes in 1994 and increased efforts to enforce compliance. High payroll taxes, over 50 percent of wages, distort labor incentives. However, the Government relies on a cascading sales tax for two-thirds of its revenues. As part of its efforts to modernize the tax system and make it more efficient from an economic standpoint, the Government had planned to replace the cascading sales tax in 1996 with a value-added tax set at 20 percent. It has now decided to postpone this step until the revenue implications are more clearly understood. Taxes and social contributions accounted for 49 percent of GDP in 1994.

Croatia is in the process of revising its economic legislation. A new company law and banking law were introduced in 1994. A new bankruptcy law and a new securities and mutual fund law are expected shortly. The government has implemented cost-saving reforms in the health care system and is considering the introduction of direct taxes (personal and corporate) as part of the consolidation of the health system within the general budget. A total revision of the pension system is being discussed.

Croatian law stipulates that government purchases over 50,000 German Marks be done via public tender in the Official Gazette, Foreign competitors are free to compete on an equal footing. As a general rule, the Croatian government does not provide subsidies or price supports. The major exception is in the agricultural sector

where price supports for commodities such as wheat (in which Croatia is self-sufficient) are prevalent. There are also local content laws which discriminate against American cigarette manufacturers. Croatia is currently negotiating to join the World Trade Organization and hopes to become a member in 1996.

4. Debt Management Policies

Croatia's foreign debt amounts to about 3.9 billion dollars if the country is assigned 28.49 percent of the three billion dollar "unallocated debt" of the former Yugoslavia in line with its share of that former country's IMF quota. In such a situation, external debt would equal about 28 percent of last years GDP and 55 percent of last year's exports of goods and services. In March, 1995 Croatia's official creditors in the Paris Club agreed to reschedule their loans according to the IMF quota formula. Croatia's commercial bank creditors have not accepted that formula and talks continue with the London Club to renegotiate the debt.

Rescheduling will result in an increase in debt service payments, because Croatia had been accumulating arrears rather than servicing its official and commercial bank debt. These arrears are estimated at 200 million dollars in the case of the Paris Club debt and somewhat larger in the case of the London Club. They should be cleared by the debt rescheduling agreements, after which, projected annual debt service should amount to less than 5 percent of GDP and about 15 percent of exports over the next few years.

Official and multilateral creditors will likely provide the bulk of Croatia's external financing needs in the near future, although a peace settlement in the region could lead to substantial inflows of private capital. The World Bank initiated its lending activity in Croatia with a 128 million dollar emergency reconstruction loan in June of 1994. The Bank's country assistance strategy anticipates commitments totalling 690 million dollars over the period FY 95–FY 98. The EBRD has approved projects totalling 230 million dollars with another 30 million dollars of projects in the pipeline. In October, 1994 the IMF approved a 190 million dollar Special Transformation Facility and a 95 million dollar Stand-by Arrangement for Croatia totalling 75 percent of its quota with the Fund. Croatia has remained essentially in compliance with the criteria established by the Fund and both facilities will be almost fully disbursed by the end of 1995. Croatia is expected to seek a new Stand-by Arrangement in 1996.

5. Significant Barriers to U.S. Exports

The greatest barrier in Croatia to U.S. exports (and those of other countries) are the testing and certification requirements for many products including food, drugs, most electronics and high tech items and machinery. Croatia does not recognize tests conducted in other countries although the Government has been actively seeking to conclude bilateral agreements which would provide for mutual recognition of testing and certification. There are reports that the testing requirement is sometimes applied rather arbitrarily, opening the door to potential abuses. Croatia also requires labelling, in Croatian, giving the country of origin and other relevant specifications of imported products.

Customs procedures are not unduly burdensome in theory. However, shortage of personnel and inexperience (given Croatia's relatively short history as an independent nation) can lead to delays and errors. In addition to customs duties, certain imported goods are subject to an administrative chargeof one percent of the customs base and a special excise duty of ten percent. The Croatian government is considering eliminating these special payments and incorporating them, in part, in the customs duties.

There are few barriers to foreign firms offering services in Croatia. If a company intends to operate regularly in Croatia rather than on a one time contract, it must establish a branch office and register for tax purposes. Although telecommunication services are by law open to competition, in practice the state telephone company, Hrvatska Posta i Telekomunikacije, controls all existing infrastructure.

In Croatia, foreign investors have the same rights, obligations, and legal status within an enterprise as domestic investors, provided the condition of reciprocity is met. A foreign person is allowed to operate as a sole trader in Croatia provided he or she holds a work permit. Before starting, the person is required to obtain a trading license and to register. Foreign persons engaged in business operations in Croatia may, on condition of reciprocity, own real estate in Croatia in the same way as Croatian citizens without any special conditions, limitations, or approvals, as stipulated in the Law on Basic Property Rights.

6. Export Subsidies Policies

There are no direct export subsidy programs in Croatia. The State Office of Strategic Material Reserves purchases certain agricultural products, especially wheat, at

prices above those in the world market and may then sell them abroad. The government is discussing the possibility of instituting duty exemptions on imported inputs that will be used in products destined for export.

7. Protection of U.S. Intellectual Property

Croatia's laws protecting intellectual property appear to be adequate and enforcement has been good. Croatia passed a Law on Protection of Industrial Property in April, 1992 and a Copyright Law in August, 1993. The Motion Picture Association of America recently commended Croatia on enforcement activities against video-piracy carried out under the Copyright Right Law, which the association said served as a model for other countries in the region.

The Republic of Croatia is party to the following conventions: the Convention Establishing the World Intellectual Property Organization; the Paris Convention for the Protection of Industrial Property; the Madrid Agreement Concerning the International Registration of Marks; the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks; the Locarno Agreement Establishing an International Classification of Industrial Designs; the Berne Convention for the Protection of Literary and Artistic Works.

8. Worker Rights

a. *The Right of Association.*—All workers, except military and police personnel, are entitled to form or join unions of their own choosing without prior authorization. There is an active labor movement in Croatia with three national labor federations and independent associations of both blue collar and white collar members. In general, unions are independent of the government and political parties. The right to strike is guaranteed in the constitution and is limited only in the armed forces, police, government administration, and public services. Strikes have been infrequent since the end of 1994 with two notable exceptions in the transportation sector.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected by law and practiced freely in Croatia. In spring 1995, the Croatian Parliament passed a new labor code, with union support, which goes into effect January 1, 1996. The code deals directly with antiunion discrimination issues. Unions now can challenge firings in court, and the new labor code did away with provisions under which illness had been a valid reason for employers to fire workers. It also erased provisions which, under the old code, required union shop stewards to remain on the job while serving full time on workers' councils, and granted them the right of reinstatement when service is completed. Nevertheless, Croatia's trade union federations have alleged that the Government employs strong-arm tactics against employees involved in labor disputes to force them back to work.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory work is constitutionally forbidden. In 1995 there were no documented instances of coerced or forced labor. the Ministry of Labor and Social Welfare is the agency charged with enforcing the constitutional ban on coerced or forced labor.

d. *Minimum Age for Employment of Children.*—The minimum age for youth employment is 15 and is enforced by the Ministry of Labor and Social Welfare. Under the constitution, children may not be employed before reaching the legally determined age, nor may they be forced or allowed to do work that is harmful to their health or morality. Workers under 18 are entitled to special protection at work and are prohibited from heavy manual labor. Education is mandatory up to age 14.

e. *Acceptable Conditions of Work.*—There are national minimum wage standards. As of October, the minimum gross monthly wage in Croatia was roughly 200 dollars gross (1024 Kuna) and 140 dollars net (694 Kuna). National regulations provide for a 42-hour workweek, overtime pay, a half-hour daily break, and a minimum of 18 days of paid vacation annually. It is standard practice to provide a 24-hour rest period during the workweek. Health and safety standards are set by the government and enforced by the Ministry of Health. In practice, industries are not diligent in meeting standards for worker protection.

f. *Rights in Sectors With U.S. Investment.*—The information given above on the five areas of concern for workers 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—1994

[Millions of U.S. dollars]

Category	Amount
Petroleum	0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Total Manufacturing		5
Food & Kindred Products	5	
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		5

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

CZECH REPUBLIC

Key Economic Indicators[1]

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

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP (1985 prices)[3]	3.7	14.3	N/A
Real GDP Growth (percent)	−0.9	2.6	4.4
GDP (current prices)[3]	31.2	36.0	N/A
GDP by Sector:[2]			
Agriculture, Husbandry forestry, Fisheries	1.9	2.0	1.8
Mining of Raw Materials	1.0	0.9	1.8
Energy, Water and Gas	1.9	2.0	2.6
Manufacturing	7.9	9.1	11.8
Construction	1.6	2.0	2.8
Retail, Vehicles Repairs, Consumer Goods	3.0	3.4	4.6
Transport, Storage, Communications	1.6	2.0	2.8
Finance	2.6	3.7	4.0
Pvt. Health, Education	4.4	5.5	6.4
Govt. Health, Education	3.6	4.0	3.8
Real per capita GDP (US$)	1,336	1,361	1,502
Labor force (million)	4,777	4,777	4,777
Unemployment (percent)	3.5	3.2	3.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.2	22.1	N/A
Base Interest Rate (average)[4]	14.94	12.98	13.2
Personal Saving Rate	9.3	11.0	10.1
Retail Inflation	20.8	10.0	9.2
Producer Price Index	13.1	4.5	7.0
Exchange Rate: Official	29.15	28.78	26.60
Balance of Payments and Trade:			
Total Exports[5] 13.07	14.30	16.0	
Exports to U.S.[5]	0.24	0.31	N/A
Total Imports[5]	12.73	14.73	18.0
Imports from U.S.[5]	0.39	0.51	N/A

Key Economic Indicators[1]—Continued

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

	1993	1994	1995[2]
External Debt	8.5	10.7	15.0
Debt Service Payment	1.16	2.47	N/A
Gold and FOREX Reserves (official)	3.9	6.2	14.0
Trade Balance	0.34	−0.43	−3.00
Balance with U.S.	−0.15	−0.2	N/A

[1] Figures are data from CNB and Czech Statistical Office.
[2] 1995 estimates are based on first half year of 1995. While the Czech Statistical Office breakdown of GDP does not match the requirements completely, the embassy decided to use them as the best available.
[3] GDP at factor cost.
[4] Figures are average annual interest rates.
[5] Merchandise trade.

1. General Policy Framework

The Czech government has continued the conservative economic and fiscal policies which have characterized the Czech transition. Similarly, it has maintained a program of broad privatization and wholesale legal reform in order to continue the building of a viable market economy. The government estimates 4.4 percent growth for 1995 and 4.8 percent for 1996.

The Czech government is continuing down the road towards economic integration with the west, as highlighted by the signing of its accession agreement with the Organization of Economic Cooperation and Development (OECD) on November 28. Despite some notable problems, such as restructuring newly privatized firms and coping with an inefficient financial sector, the Czech economy as a whole returned to solid growth in 1994. Government and private forecasts show that the Czech economy is likely to grow by over 4 percent in 1995 and by close to 5 percent in 1996, based on strong consumption and investment activity. Industrial production grew at over 7% in the first half of 1995. Fixed capital formation increased by 12% while household demand rose 5.2%. Inflation, flat in July and August, is running at a year-over-year rate of under 10%. Unemployment has not risen above 3%. While the trade deficit of close to USD 1.8 Billion outpaced services growth for a current account deficit of USD 720 billion in the first half, a strong surplus on the capital account more than compensated. As a result, foreign currency reserves grew to almost USD 15 billion by August 1995. This foreign capital inflow pushed the total stock of debt to USD 13.7 Billion (33% of which was short term loans).

The government completed the second wave of large-scale privatization in the first half of 1995, during which approximately 1,500 formerly state-owned large enterprises were transferred to the private sector. Although tenders and management buy-outs played a large role, this large-scale privatization process also included 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 70 percent of Czechs eligible to participate in the voucher program did so, giving this country perhaps the highest per capita rate of stockholders in the world. The private sector contribution to GDP is estimated at about 70 percent in the first half of 1995.

After a moderate surplus of USD 400 million in 1994, the government is likely to meet or exceed its target of a balanced budget for 1995. As of August 1995, the government budget showed a surplus of USD 425 million. The government plans a balanced budget for 1996, following some increases in budgeted expenditures in line with rises in revenue forecasts based on higher growth projected for 1996. In late 1995, the Czech government increased its proposed (balanced) budget for 1996 by USD 1.3 Billion to USD 18.7 billion (36.2% of GDP) in reaction to higher GDP growth in the first half of 1995 and a higher projection for 1996.

The central bank, or Czech National Bank, remains an independent monetary authority which has proven itself able to withstand political pressure. Monetary policy in the Czech Republic has stabilized. The inflow of foreign capital has continued to strengthen since 1994. On June 22, the Czech National Bank announced a series of measures to slow the growth of the money supply while controlling the inflow of short term foreign capital. The moves included an increase in the discount rate to 9.5% from 8.5% and establishing a uniform reserve requirement rate of 8.5%, which increased the reserve rate on most deposits by 5.5%. The bank also imposed tight restrictions on short-term deposits from abroad. The Czech National Bank also has been strengthening its supervision over banks following problems (including 4 failures) among smaller banks.

2. Exchange Rate Policies

The Czech government has followed a "hard crown" policy which has kept the crown stable since January 1991. The composition of the currency basket since 1993 has been based on the German mark (65 percent) and the U.S. dollar (35 percent). The official exchange rate has moved within the range of 25–28 crowns per U.S. dollar in 1995 while on a downward trend following the USD-DM exchange rate. The crown has been fully convertible for trade purposes since 1990.

In September 1995, the Czech parliament approved a new law on foreign exchange transactions. The law provides for current account convertibility as of October 1, 1995. (Current account transactions include the import of goods and services, royalties, interest payments and dividend remittances.) The law also liberalizes some capital account transactions, notably direct investment, purchase of securities through a broker, and real estate purchases abroad by Czech nationals. Other capital-account transactions still require a foreign exchange license. Finally, the law authorizes the central bank and the Finance Ministry to take steps to move to full capital account convertibility without additional legislation. 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.

3. Structural Policies

The continued transition towards the free market continues to require adjustments throughout the legal, financial, and political structure. Some of the major changes are outlined below.

Taxes: In late June, the Parliament passed tax reductions for 1996 and a new bad debt write-off provision. The corporate income tax is to go down from 41% to 39% and the top personal income tax rate is to drop from 43% to 40% while social insurance contributions are also to be lowered slightly. Parliament also provided for tax write-offs of bad debts, although with considerably less generous treatment of pre-1995 debts: post-1995 debts may be deducted over three years and pre-1995 bad debt over 10 years. The government plans to lower tax rates to EU levels over time.

Prices: Over 95 percent of price controls were eliminated in 1991. Only the price of utilities, rents, gasoline, fuel oil, and various municipal services continue to be regulated. These prices are being slowly increased and the remaining controls gradually eased over time.

Wages: In the second half of 1995, the government removed wage regulation which had been based on a system of punitive levies on excessive wage growth.

Privatization: the Czech Republic's rapid and innovative mass privatization program remains one of the hallmarks of its impressive economic transition to a market economy, even if its consequences for corporate governance and industrial restructuring remain unresolved. An estimated 70 percent of GDP was produced by the private sector as of mid-1995. The property still held by the state is valued at over USD 10 billion, ranging from large majorities to nominal shares in private firms, and represents the key task in finishing privatization. The government has announced its intent to reduce the state's share in 58 major or strategic firms. While the Ministry of Privatization aims to decide the framework for privatization of most of these firms before the summer 1996 elections, the bulk of sales will not occur until late 1996 and 1997.

4. Debt Management Policies

The Czech Republic maintains one of the lowest foreign debts in Central and Eastern Europe. As of mid-1995, the gross foreign debt was approximately USD 14.0 Billion. Central government debt of close to USD 6 billion represents approximately 13 percent of GDP, and current government plans call for the level of debt to drop to only 10 percent by the year 2000 through growth in the economy. The Czech Republic repaid its entire debt with the IMF ahead of schedule, the first post-communist country to do so. Standard and Poors raised its sovereign credit rating of the Czech Republic to "a" in November 1995.

Due mainly to the lending policies of the former communist regime, the current government is owed approximately USD 4.5 billion by various, mainly ex-communist bloc, governments around the world. First among them is Russia, which owes approximately USD 3.4 billion, then Syria, which owes approximately USD 750 million. The Russian debt was restructured in 1994 and a 1994 interest payment of USD 79 million was made on this debt. It remains an open question whether these other debts will be collected.

5. Significant Barriers to U.S. Exports

The government of the Czech Republic is committed to a free market and has made the elimination of artificial trade barriers an important element of its overall

economic policy. There are currently no significant barriers for U.S. exports to this country. The Czech Republic has adopted a GATT/WTO tariff code with a trade-weighted average tariff of 5–6 percent. This is being reduced to close to 4 percent in accordance with Czech commitments in the Uruguay Round. Some European Union (EU) exports face a lower tariff rate under the Czech Republic's EU Association Agreement. Currently, the difference in the duty facing U.S. versus EU firms is under 2 percent and will fall to slightly over 1 percent once the Uruguay Round reductions have been fully implemented. Trade in agricultural/food products is generally free of major trade barriers although technical barriers continue to hamper imports of certain products such as live animal and animal genetics. In anticipation of memberships in the EU, the Czech Republic is rewriting much of its legislation related to the production, marketing and trade of agricultural/food products. During this transition phase, it is not always clear which rules apply, which has led to some delays in getting products approved for import. The alignment of the Czech Republic's food legislation with the EU also means that certain products currently prohibited in the EU such as U.S. beef, genetically modified organisms (i.e. ready roundup soybeans), and BST are also prohibited in the Czech Republic.

Some provisions of the 1993 tax code have been criticized by U.S. and other foreign investors as inhibiting investment. As noted above, new Czech legislation allowed corporate tax deductibility of bad debt reserves for the first time. However, US companies are concerned about the ability to reclaim VAT collected on unrecoverable debts and the tax status of group and offshore companies. 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 intra-group use of losses (i.e., offsetting losses in one group entity against profits in another) and imposes corporate tax on dividends received from foreign holding without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction. According to the American Chamber of Commerce, offshore companies are taxable in the Czech Republic if they engage in a much lower degree of domestic activity than under guidelines recommended by the Organization of Economic Cooperation and Development (OECD) or standards applied in most other countries.

With a few limited exceptions, such as certain areas of the defense industry, all sectors of the Czech economy are fully open to U.S. investment. Equal treatment of foreign investors is also enshrined in the Czech membership application to the OECD.

The Bilateral Investment Treaty (BIT) and the agreement with the U.S. Overseas Private Investment Corporation (OPIC) signed by Czechoslovakia in late 1991 apply to the Czech Republic.

A bilateral tax treaty with the Czech Republic entered into force in January 1993. The United States granted permanent most favored nation (MFN) status to Czechoslovakia in 1992 and to the Czech Republic as a successor state in January 1993. As noted above, the Czech Republic has signed the Uruguay Round document in WTO/GATT to lower tariff rates over the next ten years.

6. Export Subsidies Policies

In mid-1995, the Czech Export Bank, a subsidiary of the Export Guarantee and Insurance Company, started to provide export guarantees and credits to Czech exporters. The bank has a policy of following the OECD consensus on export credits. Additionally, the government maintains a fund (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 Republic is a party to the Paris (industrial property) Convention and Berne and Universal Copyright Conventions and is working to ensure that laws for the protection of intellectual property match those of Western Europe. A 1995 amendment to the trademark law simplifies administrative steps concerning registration and sale of trademarks and strictly defines trademark fraud. It also bans unauthorized registration and use in the Czech Republic of generally well-known trademarks. An amendment to the copyright law is pending which would bring the Czech law into full compliance with trips and EU standards. The amendment would treat computer programs with the same protection as literary creations and narrow the personal use provision. The amendment may only partly resolve issues of ownership of software. Despite progress on legislation, enforcement of existing regulations remains uneven.

Enforcement of video piracy laws is an ongoing concern for U.S. video and motion picture exporters. While awareness of the problem and enforcement efforts on the part of Czech officials is rising, losses continue to hit these exports. According to the Czech anti-piracy union, the number of illegal video tapes on the market appears to have stabilized. While the percentage of illegal tapes has risen to 35–40% in 1995 from the 1994 low of 30%, this is due to a drop in the size of the market for first-run legal videos.

Software piracy remains a problem and the industry has been hurt by lagging enforcement and slow prosecution of offenders. The Embassy is cooperating with the US-based Business Software Alliance (BSA) to raise the level of awareness on this and similar issues. According to recent BSA data, 83 percent of software in the Czech Republic is illegal, compared to a European average of 58 percent.

8. Worker Rights

a. *The Right of Association.*—Workers in the Czech Republic have the right by law to form and join unions of their own choosing without prior authorization. Currently, under half of all workers are members of a labor organization as the overall number of union members has fallen since 1991. Under the law, all workers are guaranteed the right to strike once mediation efforts have been exhausted; exceptions are those workers (nuclear power plant operators, military, police, etc.) in sensitive positions who are forbidden to strike.

b. *The Right to Organize and Bargain Collectively.*—Workers also have the right to organize and bargain collectively. Wages are set by free negotiation.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited. There is no evidence or indication that such practices have occurred since the 1989 revolution.

d. *Minimum Age for Employment of Children.*—The basic minimum age for 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.

e. *Acceptable Conditions of Work.*—The government sets minimum wage standards to guarantee an adequate, if sparse, standard of living for a worker and, with special allowances, for his family as well. A standard workweek of 42.5 Hours was mandated by law, but collective bargaining has brought closer to 40 the actual number of hours worked. Additionally, caps exist for overtime and workers are assured at least 30 minutes of paid rest per work day as well as annual leave of three to four weeks per year.

f. *Rights in Sectors With U.S. Investment.*—All of the above workers' rights are applied to firms with U.S. investment and do not differ from those in place in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		7
Total Manufacturing		165
Food & Kindred Products	68	
Chemicals and Allied Products	81	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	5	
Electric & Electronic Equipment	5	
Transportation Equipment (	[1])	
Other Manufacturing	5	
Wholesale Trade		[2]
Banking		[2]
Finance/Insurance/Real Estate		0
Services		[1]
Other Industries		[2]
TOTAL ALL INDUSTRIES		271

[1] Indicates a value between $-500,000 and $500,000.
[2] Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

DENMARK

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	91,388	95,959	112,804
Real GDP Growth (percent)	1.3	3.1	3.5
GDP at current prices[2]	116,475	125,660	150,700
GDP by Sector:			
Agriculture	4,088	4,557	5,300
Energy, Water, Heat	2,349	2,411	3,000
Manufacturing	22,005	24,370	29,300
Building/Construction	6,109	6,872	8,200
Raw Materials/Mining	1,186	1,153	1,500
Rents	12,046	12,467	15,000
Financial Services	3,011	3,248	3,900
Other Services	41,878	45,920	55,000
Government Services	26,685	27,681	33,200
Overlap Corrections	−2,882	−3,020	−3,700
Net Exports of Goods and Services	10,083	9,091	10,200
Real Per Capita GDP[2] (1985 prices)	17,611	18,436	21,440
Labor Force (1000s)	2,848	2,837	2,834
Unemployment Rate (percent)	12.4	12.2	10.2
Money and Prices (annual percentage growth):			
Money Supply	11.2	−5.4	−2.0
Base Interest Rate (percent)[3]	10.5	8.4	8.7
Personal Saving Rate (percent)	7.8	4.8	4.1
Consumer Price Index	1.3	2.0	2.1
Wholesale Inflation	−0.6	−1.2	3.3
Exchange Rate (US$/DKK)	0.1543	0.1572	0.1786
Balance of Payments and Trade:			
Total Exports FOB[4]	37,196	41,848	50,000
Exports to U.S.	1,898	2,187	2,150
Total Imports CIF[4]	30,549	35,930	43,750
Imports from U.S.	1,418	1,745	2,150
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Debt	43,519	39,465	41,400
External Debt Service Net Interest Payments	4,800	5,267	5,100
Gold and Forex Reserves	11,539	8,505	11,500
Trade Balance[4]	6,647	5,918	6,250
Balance with U.S.	480	442	0

[1] 1995 figures are all estimates based on available data in October 1995.
[2] GDP at factor cost.
[3] Figures are actual, average annual bank lending interest rates, not changes in them.
[4] 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 krone/US$ exchange rate in the relevant year.
Danish Krone/US$ exchange rates used:
1993: DKK 6.48=$1.00
1994: DKK 6.36=$1.00
1995: DKK 5.60=$1.00

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-manufactures for its industry and on coal for its electrical power production, ensuring ade-

quate supplies has always been a major goal of Danish trade and industry policies. Denmark has been a member of the European Community (now European Union-EU) since 1973. Denmark's active liberal trade policy in the EU, OECD, and GATT often coincides with U.S. interests. Denmark in December 1994 ratified the Uruguay Round agreements which also apply to Greenland and the Faroe Islands, two autonomous territories of Denmark. EU countries account for around two-thirds of Denmark's total trade. The United States, Denmark's largest non-European trading partner, accounts for about five percent of total Danish merchandise trade. On May 18, 1993, Danish voters reversed their earlier rejection of the EU "Maastricht Treaty" and reinforced Denmark's commitment to continued EU cooperation and integration. However, Denmark, inter alia, 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 lead in efforts to combat new nontariff trade barriers arising within the EU while other barriers are dismantled.

Despite continued high unemployment, the Danish economy is strong due to comfortable balance of payments surpluses and low inflation. This resulted from tight fiscal policies of minimum increases in public expenditures and monetary and exchange rate policies similar to Germany's, which have been pursued since the early 1980's. The Social Democratic Party (SDP)-led coalition government, which took power in January 1993, and managed to retain it after the elections held in September 1994, relaxed fiscal policy in 1994, and introduced a limited income tax reform to kick-start the economy. The Government also introduced a series of measures to combat unemployment, which include government-funded leave programs and government-subsidized job creation measures.

Despite strong economic growth starting in the second half of 1993, real 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, large unemployment benefit costs (albeit now falling), increasing leave program costs, and other transfer income costs, have made it difficult to reduce budget deficits significantly despite high economic growth. The public sector budget deficit was reduced from 4.5 percent of GDP in 1993 to only 3.8 percent in 1994. Foreign investment incentives are limited to lenient income taxation of high-paid foreigners working in Denmark (a flat 31 percent tax on gross income in 1995). 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 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 since 1988, 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, uses 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. Since early 1993, the Central Bank has successfully used small discount rate adjustments of between 0.25 and 0.5 percent to control liquidity and to protect the krone. On November 8, 1995, the discount rate was lowered by 0.25 percent to 4.75 percent (the lowest rate in 36 years). However, the low inflation (two percent in 1994 and 1995), together with monetary and the exchange rate policies, maintains high real market interest rates.

2. Exchange Rate Policies

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 decided not to participate in its third phase (establishment of a single EU currency and relinquishment of national sovereignty over monetary policy). For more than a decade, the Government has successfully resisted addressing Denmark's economic problems through exchange rate adjustments, and this policy continues. In September 1995, the trade-weighted value of the krone was 3.8 percent higher than in September

1994, due mostly to the krone's appreciation against the dollar, the pound and the yen.

The value of the krone against the dollar in October 1995 (DKK 5.49 to $1.00) was almost eight percent higher than in October 1994. Over the last two years the Krone has appreciated 20 percent in relation to the dollar. The consequent improvement in U.S. price competitiveness has assisted increased U.S. exports to Denmark and reduced Danish exports to the United States. As a result, U.S. trade deficits in 1993 and 1994 of close to $0.5 billion each year will likely be eliminated in 1995.

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 tax on gross income (starting at five percent in 1995, and increasing one percent each year to eight percent in 1997), the Danish income tax system was brought closer to those of other EU countries. Unique 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. Environmental taxes, including CO2 taxes, are being imposed on both industry and consumers to an increasing extent.

Despite Denmark's success in resolving many of its former structural problems, the large number of jobless people remains a major problem. Labor mobility, both geographically and sectorally, is low in Denmark due to rather lenient requirements to qualify for unemployment benefits and structural rigidity which prevents crossing craft lines. In response, the Government has started enforcing existing 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 concentrate on job rotation (leave programs aimed at taking people out of the labor force) and on job creation through subsidization of home services work, the latter with only limited 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 $1.00), or 40 percent of GDP. However, since 1990, the BOP has moved into a surplus which peaked at $4.7 billion in 1993. In 1994, the BOP surplus dropped to $2.7 billion. Consequently, foreign debt is gradually being reduced and by the end of 1994 equaled 27 percent of GDP. Despite BOP surpluses, net interest payments on the debt continue to be a burden, accounting for about 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 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 1994, the public sector's net foreign debt, including foreign exchange reserves, was the equivalent of $50 billion, of which krone-denominated government bonds accounted for more than half.

The central government's debt denominated in foreign currencies in 1994 dropped more than 20 percent to the equivalent of $20 billion at the end of the year, as extensive foreign loans taken in connection with the July/August 1993 currency crisis were repaid. One-third of this debt is denominated in German marks, followed by 18 percent in dollars, and 14 percent in Swiss francs. Close to 40 percent of the debt is in short term obligations with variable interest rates. The total debt has an average term of 1.9 years (2.9 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 $1.4 billion in 1994. It is almost

equally distributed between bilateral and multilateral assistance. Bilateral assistance is concentrated on 20 "program" countries, of which three were added in 1994: Niger, Ethiopia, and Bolivia, while Thailand was taken off the list as it is no longer eligible due to its high per capita GNP. African countries account for about 60 percent of total bilateral assistance. Denmark also supports the new democracies in East and Central Europe, including the Baltics and the former Soviet Union, and in 1995 budgets with costs of about $330 million for assistance (0.25 percent of GNP). In addition, the Government budget in 1995 includes about $225 million for multinational environmental and disaster assistance. 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/WTO codes and 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.

With the implementation of the EU Single Market on January 1, 1993, most industrial standards, testing, labeling and other requirements are gradually being harmonized within the EU. However, as harmonization takes place, new nontariff trade barriers (NTBs) have surfaced in individual EU member countries. Denmark has taken the lead in combating the problem and, together with the EU Commission, hosted a successful nontariff barrier conference in Copenhagen in September 1994. The National Agency for Development of Trade and Industry under the Ministry of Business and Industry has set up a NTB section to assist Danish companies facing foreign trade barriers. This section is initially focussing on the EU and other European countries with free trade agreements with the EU.

Denmark, like most other countries, requires an exam or experience in local law in order to practice law. In addition, investment in stockbroker companies requires that the managing director have at least three years of experience in securities trade. 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 a reciprocity test for foreign direct investment in the financial sector, which, however, has not been an obstacle to U.S. investment. Three U.S. banks, Citicorp (through its U.K. subsidiary), Republic National Bank of New York and State Street Bank Trust company, have branches or offices in Denmark. The Government recently announced its plans to fully liberalize the Danish telecommunications sector as of mid-1996, 18 months in advance of the deadline set by the European Commission. A second private cellular mobile telephone network (General Systeme Mobile-GSM) with 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 has, inter alia, implemented the EU's "Supplies" Directive 93/36/EEC, "Works" Directive 93/37/EEC and "Utilities" Directive 93/38/EEC. 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 3 percent price differential requirement will only have minor importance in procurement decisions. An administrative note issued in 1993 also advises central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement. The central government, its institutions and entities owned by it, are obligated to apply environmental and energy criteria on equal footing with, e.g., price, quality and delivery terms in their procurement of goods and services in compliance with EU procurement rules. This may reduce U.S. access to the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases 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) to Denmark in 1994 of $767 million were equivalent to 9 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 addition, Denmark has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark maintains the principle of using at least 50 percent of all bilateral assistance for purchases of Danish produced goods and services. 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, warmly welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally, but ratification of the agreement by all parties is pending.

7. Protection of U.S. Intellectual Property

Denmark is a party to, and enforces, a large number of international conventions and treaties concerning protection of intellectual property rights. It offers adequate protection of such rights. Denmark is a member of the World Intellectual Property Organization.

Patents: Denmark adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. 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 copyright issue of concern to the U.S. 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 1995 receive national treatment. It now appears that these provisions will be implemented so as to allow the principal U.S. rights holders to share in the distribution of revenues.

A recent complaint by a U.S. company regarding alleged infringement of intellectual property rights in the biocides test data was successfully resolved with the Danish Government accepting its obligations under the GATT/WTO "TRIPS" Agreement.

The EU, but not Denmark specifically, is named on the Special 301 Watch List or Priority Watch List. Denmark is not identified as a Priority Foreign Country.

8. Worker Rights

a. *The Right of Association.*—Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. In 1994, 75,000 workdays were lost due to labor conflicts (down from 113,700 in 1993). Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *The Right to Organize and Bargain Collectively.*—Workers and employers acknowledge each 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 or triennial (the industry sector) negotiations between the various employers' associations and their union counterparts. If negotiations fail, a national conciliation board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the Government may force a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. 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 (DWES), 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. Daniah law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. 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—1994

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)
Total Manufacturing	298
Food & Kindred Products	(1)
Chemicals and Allied Products	33
Metals, Primary & Fabricated	(1)
Machinery, except Electrical	(1)
Electric & Electronic Equipment	48

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	(2)	
Other Manufacturing	59	
Wholesale Trade		190
Banking		(1)
Finance/Insurance/Real Estate		380
Services		533
Other Industries		14
TOTAL ALL INDUSTRIES		31,993

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ESTONIA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (percent) [2]	−7.0	6.0	5.9
GDP (at current prices)	1,631	2,658	3,650
GDP by Sector (percent):.			
Agriculture	12	11	10
Energy/Water	4	3	3
Manufacturing	19	18	21
Construction	7	5	6
Rents	7	6	7
Financial Services	3	4	4
Other Services	37	38	38
Government, Health and Education	12	13	13
Net Export of Goods and Services	−91.4	−353	−535
Real Per Capita GDP ('85 BPS)	N/A	N/A	N/A
Labor Force (000s)	654	640	635
Unemployment Rate (percent)	2.0	1.51	1.55
Money and Prices (annual percentage growth):			
Money Supply (M2)	124.5	27.1	37.6
Base Interest Rate [3]	25.4	21.5	17.0
Personal Saving Rate [4]	14.8	15.6	11.1
Retail Inflation	89	48	25.8
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	42	49	28
Exchange Rate (kroon/US$—annual average):			
Official	13.2	13.0	11.5
Balance of Payments and Trade:			
Total Exports FOB [5]	806.2	1,303.6	1,728.3
Exports to U.S.	15.2	23.8	49.7
Total Imports CIF [5]	897.6	1,656.6	2,341.3
Imports from U.S.	24.5	31.2	67.3
Aid from U.S.	0.9	3.2	3.2
Aid from Other Countries	28.5	16.3	N/A
External Public Debt	136.1	222.9	307.0

Key Economic Indicators—Continued

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

	1993	1994	1995
Debt Service Payments (paid)	16.7	9.9	16.8
Gold and Forex Reserves	278	402	508
Trade Balance[5]	−51.4	−353	−613
Balance with U.S.	−9.3	−7.4	−17.5

[1] Dollar amounts are calculated using annual average official exchange rate for respective year.
[2] 1995 figures are projections based on partial year data available November 1, 1995.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Figures are actual, average percents, not changes in them.
[5] Merchandise trade.

1. General Policy Framework

Estonia continues to experience strong growth after its economy bottomed out from post-Soviet shocks in the second quarter of 1993. Data from the first three quarters of 1995 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 eight to one exchange rate; no devaluations or revaluations are anticipated.

Trade continued to expand in 1995, although Estonia remains in a deficit position with imports outpacing exports by approximately 20 percent. Estonia seeks to join the European Union (EU) as quickly as possible and has requested an associational agreement in an effort to accelerate the process.

The government continued to report a balanced budget and, due to higher than expected accruals of tax revenues, one supplementary budget had been adopted. The structure of the balanced budget has prevented wage increases in line with inflation for government employees, particularly teachers and law enforcement personnel. Several privatization schemes have been used including use of vouchers which can be traded on a secondary market.

2. Exchange Rate Policies

Estonia introduced its own currency, the kroon, in June of 1992, using a currency board which supplies or redeems the kroon for the German mark at a fixed exchange rate without limitations.

The monetary reform has given a major boost to Estonia's sovereignty and economic progress. A strong kroon is frequently cited as the most important factor in creating fertile conditions for economic restructuring and recovery. Estonia's hard currency reserves continued their steady growth through 1995.

Estonia eliminated the last of its capital controls in 1994. There are no restrictions in opening foreign bank accounts either in Estonia or abroad, nor are there restrictions in exchanging kroons for hard currency and repatriating funds from Estonia. The exchange rate policy of Estonia is expected to remain unchanged. There are no perceived pressures on the kroon for a revaluation (or devaluation). Government monetary and fiscal policies, particularly the fixed exchange rate and the currency board arrangement, exert downward pressure on inflation although broader economic trends including capital expenditures and integration with western economies push domestic prices higher.

3. Structural Policies

Pricing policies: In January of 1992, the prices of 90 percent of goods were deregulated, and the government 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 enterprise; companies already receiving tax holidays, however, were grandfathered. An 18 percent VAT is levied on most goods and services. VAT is collected on imports as they enter Estonia; the importer is then 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 among the most liberal in the world. Import duties only exist for fur and goods made of fur (16 percent), and for water and road vehicles (10 percent). The only export duties are levied on rapeseed oil (100 percent), items of cultural value, including arts and antiques (100 percent), and metals (ferrous and non ferrous waste and scrap) (5 to 25 percent). Economic activities which are subject to licensing include trading of metals and precious metals, and trading of alcohol and tobacco products. Any legal entity registered in Estonia can apply for an operational license.

4. Debt Management Policies

With respect to external debts, Estonia has signed loan agreements with foreign lenders, of which 16 have entered into force. The total commitment of foreign loans as of September 1, 1995, was $440 million. An additional $135 million is in the form of government credit guarantees.

On the basis of current projections, the ratio of total external public debt to GDP is expected to increase to a maximum of 8.6 percent in 1997 before declining to approximately 7.0 percent in the year 2000. Debt service as a proportion of exports of goods is projected to remain in the range of about 1.1 to 3.1 percent during the period 1995 to 1999 before rising to 5.9 percent in the year 2000.

The high point of debt repayment is expected to arrive in 2000 as a total of $136 million will have to be repaid. This is because the term of many loans made in 1993 is seven years and Estonia will also have started the repayment of several longer term loans.

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 and telecommunications services remain uneven. Service in areas outside the capital is greatly inferior although projects are underway to improve the service in the near future. Weak infrastructure outside of Tallinn has been a major factor for the minimal amount of foreign investment going to regions outside the capital. Since foreign investment is a major spur to trade, trade performance in these same regions has suffered.

Financial institutions: Performance of Estonian banks has been uneven. Government moves to eliminate smaller banks have prompted a sharp reduction in the number of marginal institutions. Several larger banks now offer services roughly comparable to western commercial 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 identical rights and obligations as domestic individuals or companies. However, in some sectors (mining, power engineering, telecommunications, gas and water supply, transport, telecommunications, and 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 whichit 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.

Patents: Estonia has taken several significant steps to improve patent regulation. The patent law sets out protections and judicial proceedings. As of October 1, 1995, there have been 18,149 applications for trademark registration since 1992, about 34 percent of them are from foreign companies including 3,427 U.S. companies. Some 10,600 applications have received certificates proving trademark registration; this number includes 1,959 companies from the United States. The fee for a trademark registration is approximately $200.

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. Lax enforcement of laws relating to intellectual property has drawn criticism from organizations representing artists and writers. Widespread piracy has limited local demand for the legitimate products, especially video and audio tapes, and compact disks.

8. Worker Rights

a. *The Right of Association.*—Estonia's constitution guarantees the right to form and join a union or employee association. The Central Organization of Estonian trade unions (EAKL) was created 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 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 1995 had fallen further to about 140,000 organized into 23 unions. The EAKL attributes the drop in membership to the breakup of large government-owned enterprises and privatization. Another trade union, the Civil Servants Professional Union Organization, split from the EAKL in 1993 and in 1995 has about 40,000 members who are employees of state-financed institutions. About one third of the country's labor force belongs to one of the two labor federations.

The right to strike is legal, and unions are independent of the government and political parties. There were no strikes in 1995; some worker demonstrations occurred to protest low salaries or poor working conditions. 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, which provide the basis for specific labor agreements. The EAKL was also involved with developing Estonia's new labor code covering employment contracts, vacations, and occupational safety. The labor code prohibits antiunion discrimination, and employees have the right to go to court to enforce their rights.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the Constitution and is not known to occur. The ban is effectively enforced by the Labor Inspections Office.

d. *Minimum Age for Employment of Children.*—In 1993, according to the labor law, the statutory minimum age for employment is 16 years. 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 EAKL and the Central Producers Union, sets the minimum wage and reviews. In September, the Labor Union Federation and the Producers Union agreed to ask the government to raise the monthly minimum wage from 450 to 680 kroons ($62). The minimum wage is not sufficient to provide a worker and family a decent standard of living. About 3 percent of the work force receive the minimum wage. The average wage is more than 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, statutory 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 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.

f. Rights in Sectors With U.S. Investment.—Rights in U.S.-invested sectors do not differ significantly from those in the economy in general.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

FINLAND

Key Economic Indicators

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

	1993	1994	1995 (est.)
Income, Production and Employment:			
GDP (1990 prices)	79.8	91.3	111.0
Real Growth (percent change)	−1.2	4.4	5.0
GDP (current prices)	73.0	97.5	121.3
GDP (factor cost)	73.6	85.3	N/A
GDP by Sector:			
Agriculture	2.0	2.3	2.3
Other Primary Production	2.0	2.7	N/A
Energy and Water	1.9	2.3	N/A
Manufacturing	17.8	21.5	23.2
Construction	3.5	4.5	4.5
Rents	11.4	13.3	N/A
Financial Services	3.07	3.1	3.2
Other Services	18.8	21.4	N/A
Government, Health and Education	14.94	16.72	N/A
GDP per Capita (1990 prices, US$)	15,572	17,940	N/A
Labor Force (thousands)	2,484	2,480	2,500
Unemployment Rate (percent)	17.9	18.4	17
Money and Prices:			
Money Supply (M2)	48.9	54.9	[1] 66.9
Base Interest Rate (percent)	6.9	5.2	4.7
Personal Savings Rate (percent)	9.5	4.9	6.5
CPI (1990=100)	109.7	110.9	111.9
Exchange Rate (FIM/US$)	5.7	5.2	[1] 4.4

Key Economic Indicators—Continued

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

	1993	1994	1995 (est.)
Balance of Payments and Trade (billions of dollars unless otherwise noted):			
Exports (FOB)	23.5	29.5	[2]9.2
Exports to U.S.	1.8	2.1	[2]0.7
Imports (CIF)	18.0	23.0	6.6
Imports from U.S.	1.3	1.7	0.4
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	27.2	33.82	[1]40.72
Foreign Net Interest Payments	6.1	N/A	N/A
Of which by central gov't	1.5	N/A	N/A
Reserves (year-end)	5.8	10.0	10.9
Trade Balance	5.4	6.4	[1]2.7
Balance with U.S.	0.5	0.3	[1]0.7

[1] Third quarter 1995 figures.
[2] First quarter 1995 figures.

1. General Policy Framework

The Finnish economy continued its uneven recovery from its 3-year recession in the early 1990's, during which GDP 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 by about 4.5 percent in 1995. The early 1990's 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 was membership in the European Union (EU), which took place on January 1, 1995.

The economic recovery so far has been largely jobless. Unemployment has dipped only slightly and remains in the high teens amid sluggish domestic demand. These factors, coupled with low levels of business investment, have resulted in flat government revenues and continued large budget deficits. In 1995, the deficit will be about a third of total spending, the same level as 1994. The deficit is financed by foreign and (increasingly) domestic borrowing through the issuance of bonds. 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 1995 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 1995.

Despite the high level of foreign debt servicing, Finland is experiencing a sharp improvement in its balance of payments; the current account is in surplus for 1995. The main contributing factor is a sharp increase in export sales spurred on by strong international demand for Finnish commodities, sluggish demand for imports, and an appreciating Finnmark that further reduces the import bill. Inflation has so far stayed at a low level due to low domestic demand, an appreciating Finnmark, and tight credit availability (banks have adopted very cautious lending policies in an effort to improve their balance sheets).

Finnish economic policy is based to a large extent on membership in the EU. The requirements of the EU, for example, have resulted in new competition legislation that could help to reduce the cartelized nature of many Finnish industries. Legislation which took effect at the beginning of 1993, liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The rise in stock market activity in 1993, is also due to lower domestic interest rates and a tax law, which set a uniform rate of 25 percent on capital income taxation. Foreign direct investment has been slower to materialize, although several large investments by U.S. firms were consummated in 1995. 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, with membership beginning in January 1995. EU membership and budgetary constraints

have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. In the membership negotiations Finland strove (with some success) to establish special support mechanisms which provide levels of support higher than the EU 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 Policies

The Finnmark has been floating since the government and central bank first devalued it in September 1992, and shortly thereafter broke its fixed link with the European currency unit (ECU) in the midst of a currency crisis. After the float was initiated, the parliament passed new legislation allowing the float to continue indefinitely. By mid-1995 the Finnmark had regained its pre-float value against both the German mark and the U.S. dollar. The government may attempt to bring the Finnmark into the EU's exchange rate mechanism sometime in 1996.

Finland's 1996 budget aims to qualify the country for EMU membership by 1999. While the convergence program rests on several unrealistically optimistic assumptions (particularly with regard to budget deficits), Finland probably will come close to meeting the Maastricht EMU criteria in time for 1999 participation.

3. Structural Policies

Finland replaced its turnover tax with a value added tax in June 1994. While the change has had little effect on overall revenues, several areas not previously taxed or taxed at a lower rate, including many corporate and consumer services and construction, are now subject to the new VAT in conformity with EU practice. The government has kept the basic VAT rate at the same rate as the old turnover tax, which is 22 percent. Some goods and services, including transportation services, accommodations, films, pharmaceuticals and books, are 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 continue to be subject to different forms of taxation outside the VAT. At the beginning of 1993, a uniform rate of 25 percent taxation on capital income took effect, including dividends, capital gains, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, where the tax rate 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 is the preferred 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 ten 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 increased markedly as the Finnish economy went into recession in the early 1990's. 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 the need for fiscal discipline 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. Under the government's convergence program, general government gross debt (EMU definition) is projected to drop to slightly below 60 percent of GDP by 1999. 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, Moodys 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 London 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 four years.

5. Significant Barriers to U.S. Exports

In most cases, effective January 1, 1995 Finland adopted 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 ended 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 is phasing in EU textiles tariffs over a 3-year period starting in January 1995.

Finland's adoption of the EU tariff schedule would have resulted in increased barriers to U.S. exporters in several key categories including agriculture, chemicals, and electronics components. The U.S., acting under its GATT/WTO Article XXIV:6 rights, requested compensation for lost exports in these product categories. A tariff quota system that preserved the original, lower tariffs was in effect for much of 1995 pending a permanent solution. In December 1995, the U.S. and the EU agreed to a permanent compensation package. It is unclear what impact this package will have on U.S. exports. However, some negative impact can be expected since the agreed-upon tariffs generally are higher than the pre-accession tariffs.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives has gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation as well. Auto insurance companies will not be required to establish a representative office 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. Finland has adopted the EU broadcast directive, which has a 50 percent European programming target "where practicable" 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/WTO Standards Code signatory and in most cases has 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 has eliminated most sectoral investment restrictions. Foreign investors instead will have to meet the obligations required of Finnish investors.

Finland is a signatory to the GATT/WTO 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 Policies

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.

Finland is a member of the GATT/WTO subsidies code.

7. Protection of U.S. Intellectual Property

Finland has a good record in passing and enforcing effective laws to protect intellectual property. For example, the incidence of software piracy is among the lowest in the industrialized world. Finland is a member of all principal multilateral intellectual property organizations and conventions.

Finland's copyright legislation has been modified to conform with EU practice, as required by the EEA Agreement. the EU directive dealing with reselling videocassettes has been implemented. The EU software directive has also been implemented. The directive has made it easier to prosecute cases of unauthorized software copying. Finland granted product patent protection for pharmaceuticals at the beginning of 1995. Previously, process patent protection was 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. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the constitution and is not practiced.

d. *Minimum Age for Employment of Children.*—Sixteen is the minimum age for full-time employment (eight hours per day). Children that are 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		217
Food & Kindred Products	1	
Chemicals and Allied Products	151	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	19	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	36	
Wholesale Trade		270
Banking		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	(1)
Services	14
Other Industries	(1)
TOTAL ALL INDUSTRIES	602

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1980 prices)	630	661	754
Real GDP Growth (percent)	−1.5	2.9	2.7
GDP (at current prices)	1,251	1,330	1,550
GDP by Sector[2]	1,158	1,195	N/A
Agriculture	29	32	N/A
Processed Food	35	36	N/A
Energy/Water	51	52	N/A
Manufacturing	193	170	N/A
Construction	61	60	N/A
Rents	115	124	N/A
Financial Services	61	69	N/A
Retail Trade/Other Non-Financial Services	448	470	N/A
Government and Non-profit Services	214	229	N/A
Statistical Adjustment	−49	−48	N/A
Net Exports, Goods and Services	27	28	43
Real Per Capita GDP (1980 prices, US$)	10,938	11,420	12,974
Labor Force (avg/000s)	25,121	25,228	25,486
Unemployment Rate (avg/percent)	11.7	12.5	11.5
Money and Prices (annual percentage growth):			
Money Supply (M3)[3]	−2.3	0.8	4.0
Base Interest Rate (year end)	8.15	8.25	8.20
Personal Saving Rate (average)	13.8	13.3	13.9
Retail Inflation (average)	2.1	1.7	2.3
Intermediate good prices (avg)[3]	−2.8	3.1	7.8
Consumer Price Index (1990=100, average)	107.9	109.7	112.2
Exchange Rate (FF/US$—annual average)	5.66	5.55	5.0
Balance of Payments and Trade:			
Total Exports FOB[4]	211	235	169
Exports to U.S.	15	16	10
Total Imports CIF[4]	203	228	161
Imports from U.S.	18	20	12
Trade Balance (CIF/FOB)	7	7	8
Balance with U.S.	3	3	2
Gold and Foreign Exchange Reserves[5]	51	56	61

[1] Embassy estimates based on published French government data unless otherwise indicated.
[2] GDP excludes value added tax and other taxes.
[3] 1995 figure reflects M3 as of August 1995.
[4] 1995 estimate based on first seven months.
[5] 1995 figure reflects reserves as of May 1995.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual gross domestic product equal to about one-fifth of that of the United States. In terms of international trade, France is both the fourth largest exporter and importer in the global market. Like the United States, France is a world leader in production and export of high technology and defense goods, agricultural products, and services. France imports many of these same goods and services from its chief trading partners in Europe and from the United States. France is the eighth largest trading partner of the United States worldwide and the third largest in Europe. The U.S currently enjoys a modest surplus in trade with France. U.S. exports to France grew steadily in 1994, buoyed by the favorable exchange rate and the resulting price competitiveness of U.S. goods.

The overarching economic policy objectives of recently elected President Jacques Chirac are two-fold: to create jobs and to reduce the budget deficit. The government has made some progress in reducing unemployment from over 12 percent in 1994 to about 11.5 percent in 1995. An additional 100,000 jobs were created in the first half of 1995. When it took office in May 1995, the new government of Prime Minister Alain Juppe announced a variety of new job-creation programs, including retraining and payroll tax subsidies. Nevertheless, at over 11 percent, the high unemployment rate remains a top concern.

The government's early focus on job creation created doubts regarding its commitment to deficit reduction and to European Monetary Union (EMU). (In order to meet Maastricht Treaty targets for EMU, France must reduce the government's budget deficit from an expected level in 1995 of about 5 percent of GDP to 3 percent by 1997.) This lead to both a weakening of the franc and upward pressure on interest rates. More recently, however, the government has placed more emphasis on deficit reduction as a means of bringing down interest rates, which, in turn, should stimulate growth and employment. The 1996 budget presented to parliament aims to reduce the deficit in to 4 percent of GDP through tax increases and spending freezes/decreases. In November 1995, the government also announced an ambitious program to reform the social security program and reduce its deficits, again through a combination of tax increases and savings measures.

More recently, however, the Frency economy has been affected by a general transport strike which could reduce GDP in 1995 by several tenths of a percentage point. The ultimate effect on the economy will depend upon when the strike ends. Thus far, financial markets have not been seriously affected by the strike, and the Bank of France has even been able to carry our additional lowerings of its official call rate.

The French government has also sought to attract foreign investment, which government officials now recognize as an important source of new jobs. The Juppe government recently announced its intention to eliminate certain restrictions on non-EU investors, and has continued a major industrial privatization program. Economic growth in France (about 2.7 percent in 1995) is driven by exports and business investment. This growth in French business investment is creating new opportunities for U.S. investors and exporters. As a result of fiscal austerity, government investment remained flat in France in 1995. Nevertheless, long-term, big-ticket infrastructure projects, such as the planned expansion of Roissy/Charles De Gaulle airport in 1997 and the government's proposal to build a third international airport near Paris by 2015, may generate additional opportunities for U.S. exporters.

On the monetary policy front, the top priority of the government and the newly independent Bank of France is to achieve European Monetary Union on schedule in 1999. France currently meets the Maastricht Treaty targets for long term interest rates and inflation, but not for the budget deficit. Real wages grew just over one percent in France in 1995, well below the rate of overall economic growth, boosting French industrial productivity. Consumer demand remains soft, however, as the slow rise in wages, combined with consumption tax (VAT) increases and stubbornly high unemployment, have tended to offset the impact of new job creation.

Most troublesome for French monetary authorities have been repeated speculative runs against the franc. These attacks have reflected the financial markets' skepticism regarding the government's fiscal policies, in particular France's commitment to reduce the budget deficit. The brunt of defending the franc and maintaining its value vis-a-vis the German mark has fallen on interest rates. The Bank of France was forced to raise official rates several times in 1995 to defend the franc. However, recent strong statements and actions taken by the government regarding its intention to cut deficits have reassured markets, and have allowed the Bank to gradually cut rates. A continuation of this process will help stimulate business investment and consumer demand at a time when French growth appears to be slowing.

A bright star in the French economic constellation is the external account. In 1994 France enjoyed a record current account surplus, reflecting particularly strong export performance. Strong export performance continued in 1995, as French exporters benefited from increased demand in foreign markets and strong competitiveness related to productivity gains at home. Nevertheless, the French government has called on exporters to compete more aggressively with U.S. and other commercial adversaries to win market share in emerging markets in Asia and Latin America. France has also pledged export assistance to small and medium sized businesses.

France is a founding member of the European Union (EU). Hence its imports are subject to a common external tariff and to the restrictions of the Common Agricultural Policy. As the EU continues to advance its "single market" program to remove all internal barriers to the free circulation of goods, services, capital and labor, jurisdiction over a growing number of economic areas, including certain aspects of tax and investment policy, is being transferred to Brussels from Paris.

France accepted the Uruguay Round Final Agreements and joined the World Trade Organization effective January 1, 1995.

2. Exchange Rate Policies

Within the established limits of the European Exchange Rate Mechanism (ERM), the value of the French franc is set by market forces. It is also influenced by macroeconomic policy actions and 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 coordination efforts among industrialized countries, including the United States.

Recent speculative attacks against the franc, noted above, have been focused on the franc's value vis-a-vis the German mark. The franc continued to appreciate against the dollar throughout 1994 and most of 1995, resulting in increased price competitiveness of U.S. exports to France.

3. Structural Policies

Recent changes in France's tax policy, as noted above, have aimed at meeting short-term revenue shortfalls through hikes in consumption (VAT) and corporate taxes. The French government has indicated it intends to reform the tax system, but serious debate of tax reform is not expected before early 1996.

Under Prime Ministers Juppe and his predecessor, France has pursued an industrial policy aimed at reducing the role of government in the economy. In November, the government launched the privatization of aluminum producer Pechiney. This followed on the successful privatization in June of Europe's largest steel producer, Usinor-Sacilor. Other companies privatized since France's program was launched in 1993 include oil producer Elf Aquitaine, the Banque Nationale de Paris, insurance companies UAP and GAN, tobacco monopoly Seita, and pharmaceutical producer Rhone-Poulenc. The present government is carefully evaluating market conditions for launching further privatizations and completing the sale of partially privatized auto giant Renault and computer maker Bull.

This privatization campaign has produced substantial revenues for the French government and has created new private investment opportunities in business sectors previously controlled by the state. The pace of future privatizations will depend on market forces, which dictate potential share prices (and potential government revenues from stock offerings), as well as domestic political concerns about privatizing flagship corporations such as France Telecom and Air France, which are viewed by many in France as providing essential "public" services.

France has moved gradually to deregulate the economy and improve competition in line with European Union directives. In the telecommunications sector, France is committed to meeting the EU deadline for complete deregulation by 1998. In October 1995, the Government opened public consultation on deregulation of the telecommunications sector, which is currently dominated by the government monopoly France Telecom. This process should culminate in new rules to ensure fair competition and access. As an interim step, the government will open up alternative telecommunications infrastructure to competition by July 1996. Also in 1996, the government will award the first licenses to private sector applicants for the provision of telecommunications services, such as video on demand. France is similarly committed to meeting the EU's directives for civil aviation deregulation by 1997. As a first step, in October 1995, the government announced civil aviation deregulation measures affecting domestic carriers operating domestic routes. In contrast, however, there has been no deregulation of the electricity sector. France has signaled to the EU its intention to maintain a state monopoly on electricity distribution.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. As a member of the G–10 group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan Africa.

5. Significant Barriers to U.S. Exports

In general, France's trade policies are determined by European Union agreements and practices. These policies include preferential trade agreements with African, Caribbean and Pacific countries under the Lome Convention.

While the vast majority of bilateral trade occurs without controversy, U.S. companies sometimes complain of France's complex technical standards and of unduly long testing procedures. Such procedures must usually be done in France and test requirements and standards sometimes appear to exceed reasonable requirements to ensure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment and agriculture phytosanitary standards.

French trade policy effectively restricts U.S. (and other non-EU) audiovisual exports. In January 1992, France enacted legislation adopting the 1989 EU Broadcast Directive requiring a "majority portion" of programming to be of European origin. France, however, went beyond EU rules, specifying a percentage of European programming (60 percent) and French programming (40 percent), and applying quotas both to the 24-hour day and to prime-time slots. Such quotas limit the access of U.S. programs to the French market. Nevertheless, the market share of U.S. films and television shows in France remains high. Despite France's desire for tighter EU television quotas, the situation has not changed much since 1992. Recently, the French government has concentrated its efforts primarily on new European financial and other subsidies for film and television production.

The 1992 restructuring of the French legal services system has restricted the provision of legal services in France by U.S. (and other non-EU) law firms and lawyers. While U.S. individuals and firms are not barred outright, the elimination of the "legal consultant" category under which most American lawyers practiced in the past has created substantial problems. New-to-market U.S. lawyers must pass the regular French bar exam, or an alternate short-form exam for non-French nationals, in order to practice any type of law in France. Both exams require strong command of French and French law. (Note: In October 1994, the French government eliminated the reciprocity requirement for entry into the French bar, in accordance with the General Agreement on Trade in Services. Prior to this date, the short-form exam was reserved essentially for EU lawyers.)

A potential barrier to U.S. investment in France exists in the form of a mandatory notification and approval process applied to nearly all foreign investors from outside the EU. Foreign investors must receive approval from the Ministry of Economics and Finance when buying an existing French business, unless the investors are controlled by French nationals or "established" EU investors. Such approval is automatic within 30 days of submitting the application in the absence of an objection from the government.

To qualify as an "established" EU-controlled firm, businesses must be controlled by EU nationals, have annual sales of more than FF 1 billion, and must have been in business for at least three years. Firms controlled by EU nationals not qualifying as "established," and firms controlled by non-EU nationals, are required to notify the Ministry of Economics before acquiring or otherwise investing in French companies.

If the investment is more than FF 50 million or concerns a French company with sales greater than FF 500 million, the Ministry may block the sale within 30 days of the initial notification if it believes the acquisition would threaten the "national interest." All investments, irrespective of their size or the nationality of the investors, which might pose a threat to law and order, public health and safety, or that involve national defense sectors of France are also subject to review. However, because it is now actively encouraging foreign investment to help create jobs, the French government has not actively used the notification/approval process to block foreign investment in the past few years. Moreover, the government is in the process of abolishing those investment screening requirements which discriminate against U.S. and other non-EU investors. Current plans are to lift these requirements in early 1996.

The 1993 law governing the privatization of major state-owned firms, mentioned above, also discriminates against U.S. and other non-EU investors. It prohibits the direct sale by the government to non-EU investors of more than 20 percent of the

firm's capital during the initial stock offering. Thereafter, however, non-EU investors may freely purchase shares in the secondary market from other private investors. In addition, through a "golden share" rule, the government may retain the right to block the sale of assets deemed "essential to the national interest," prevent certain investors from purchasing additional shares, or exert significant control over company management, even after privatization is completed. The so-called "golden share" rule has been invoked only once since the initiation of the privatization campaign, when the government sold ELF Aquitaine. Finally, any investor seeking to own more than five percent of outstanding shares of a privatized company in the health, security, or defense sectors must first receive approval from the Economics Ministry.

The French government has notified the Organization for Economic Cooperation and Development (OECD) that it will not provide national treatment to foreign investors in the following sectors: agriculture, aircraft production, air transport, atomic energy, audiovisual, accounting and financial services, defense industry, insurance, maritime and road transport, publishing, telecommunications, and tourism.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., U.S. alligator meat products), unless authorized by special derogation. Current government regulations also discriminate against imports of bovine semen and embryos from the United States and other countries by strictly controlling their marketing in France.

France is a party to all the relevant WTO codes, including those on government procurement and standards.

6. Export Subsidies 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 promote exports more aggressively, particularly to emerging markets in Latin America and Asia. Due to budgetary and other constraints, such efforts will likely not involve direct subsidies, but may include the provision of information and other services to potential exporters, particularly small and medium-sized businesses.

There are virtually no direct French government subsidies to agricultural production. Government support of French agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy (CAP). The French government does, however, offer indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

As a major technological and artistic innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "author's rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on Trademarks. By virtue of the Paris Convention and the Washington Treaty regarding Industrial Property, U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent or trademark, during which to file a corresponding application in France.

The differences between the U.S. and French systems of intellectual property rights regarding the work of performing artists and audiovisual productions can cause difficulties for American artists and producers. For example, the levy imposed on purchases of blank video tape to compensate rightsholders' losses due to private copying of audiovisual works, is in part supposed to be redistributed to authors and producers. Because of the way "producers" are defined in French law, only part of the funds the U.S. would define as accruing to American entities have been paid to them. American artists whose works are performed on French radio and television have also not been paid royalties French collecting societies received on their behalf. There are private lawsuits, and multilateral negotiations, in progress on these issues.

8. Worker Rights

a. *The Right of Association.*— and b. *The Right to Organize and Bargain Collectively.*—The French constitution guarantees the right of workers to form unions. Although union membership has declined to ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength might suggest. 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 to labor laws encourage collective bargaining at the national, regional, local and plant levels.

c. *Prohibition of Forced or Compulsory Labor.*—French law prohibits anti-union discrimination and forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—With a few minor exceptions for those enrolled in recognized apprenticeship programs, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work.*—The minimum wage in France was raised to $7.62 per hour (37 FF per hour) as of July 1, 1995. The legal work week is 39 hours, and overtime is restricted to 9 hours per week. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Rights in Sectors With U.S. Investment.*—Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,177
Total Manufacturing		27,894
Food & Kindred Products	2,255	
Chemicals and Allied Products	5,104	
Metals, Primary & Fabricated	541	
Machinery, except Electrical	2,290	
Electric & Electronic Equipment	478	
Transportation Equipment	758	
Other Manufacturing	3,096	
Wholesale Trade		4,810
Banking		387
Finance/Insurance/Real Estate		4,724
Services		1,407
Other Industries		867
TOTAL ALL INDUSTRIES		27,894

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

REPUBLIC OF GEORGIA

Key Economic Indicators [1]

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1990 prices)	N/A	N/A	N/A
Real GDP growth (percent)	−33.3	−30.0	N/A
GDP (at current prices)	1,354.7	238.6	N/A

Key Economic Indicators [1]—Continued

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

	1993	1994	1995
GDP by Sector:			
Agriculture	785.3	65.6	N/A
Energy and Water	N/A	N/A	N/A
Industry/Manufacturing	290.2	111.4	N/A
Construction	7.1	17.0	N/A
Rents	N/A	N/A	N/A
Financial Services	49.9	1.6	N/A
Other Services	140.4	40.8	N/A
Government, Health and Education	81.7	2.2	N/A
Net Exports of Goods and Services	N/A	N/A	N/A
Real per capita GDP (1990 prices, US$)	1,396.4	980.7	N/A
Labor Force (000s) [2]	1,919	1,844	1,790
Unemployment Rate (percent)	6.6	3.5	3.3
Money and Prices (annual percentage growth):			
Money Supply (M2) (in coupons)	1,834.1	2,950.7	−6.3
Base Interest Rate	N/A	N/A	N/A
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (1,000 coupon/US$):			
Official	12.3	1,073.3	1,300.0
Parallel	18.8	1,368.9	1,415.0
Balance of Payments and Trade:			
Total Exports FOB	219.4	186.0	94.9
Exports to U.S.	0.7	3.7	0.2
Total Imports CIF (excluding grants and humanitarian aid)	260.9	329.5	214.9
Imports from U.S.	2.7	4.9	6.9
Aid from U.S.	60.0	58.1	44.1
Aid from Other Countries	67.5	18.1	68.5
Debt Service Payments	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1.5	44.7	82.0
Trade Balance	−41.5	−143.5	−120.0
Balance with U.S.	−2.0	−1.2	−6.7

[1] Source: Committee for Social and Economic Information of the Republic of Georgia. The quality of the government's economic statistics is poor. An accurate reporting of statistics is hampered by a number of problems, including the unavailability of data, a lack of resources and training, poor communications infrastructure, and weaknesses in accounting systems. The Committee uses data provided by state enterprises; a small percentage of the data is provided by private enterprises.

[2] The sharp decrease in the skilled labor force may be the result of emigration of Georgian population.

1. General Policy Framework

Following three years of catastrophic economic decline, prolonged political instability and civil conflict, and widespread government incompetence and corruption, Georgia's economic conditions through most of 1994 were very poor. But the government's economic reform program, developed in close cooperation with the International Monetary Fund (IMF) and the World Bank (WB), began to yield results in the last quarter of 1994. The program called for reducing hyperinflation through tight financial policies, removal of restrictions in the financial system, and liberalization of prices, commerce, and foreign trade. Because of the low level of government revenues, international donors agreed to help finance the budget through the monetization of food assistance. In June 1995, the IMF approved a Standby Arrangement (SBA) and the release of the second half of a Systemic Transformation Facility (STF) loan. Georgia passed its first quarterly review under the SBA with generally high marks. During extremely difficult domestic circumstances, major progress was made in all three areas of reform—stabilization, liberalization, and structural reform.

At the beginning of 1995, the Georgian parliament approved an annual national budget for the first time in two years. As a result of tight monetary policy and a sharp reduction in monetary emissions to finance the government budget, inflation was down to 2.5 percent per month in the first seven months of 1995, from over 60 percent per month in the first three quarters of 1994. Georgia maintained a stable exchange rate on its currency throughout 1995, both on its interim coupon currency and with its new currency, the lari, which on October 2 became Georgia's legal tender. The growth of credit and net international reserves are currently on track with international financial institutions programmed levels.

Georgia aims to reduce its overall fiscal deficit from approximately 17 percent of GDP in 1994 to 6 percent in 1995; in the first half of 1995 the deficit declined to 8.5 percent of GDP. Revenues are up significantly, and expenditures have been cut sharply through the elimination of almost all price and enterprise subsidies, including those for bread, gas, and electricity, which previously accounted for the bulk of government expenditures. Government employment has been reduced by one third during 1995.

The collection rate of tax revenues, although low, exceeded IMF targets. Bank supervision is being improved, but banks are severely under-capitalized and too numerous. Trade has been liberalized. Some privatization is taking place. Efforts are underway to introduce the legal structures necessary to support the transition to a market-based economy. There is liberal foreign investment legislation. With an improved security environment, small retail trade has become active.

While the economic situation remains fragile, these reform policies, if continued by the new government elected in November, can pave the way for economic recovery. But the country faces many challenges. Land cannot be bought and sold, and the key energy and transportation sectors are dominated by inefficient and corrupt state monopolies and regional barons. Georgia suffers from a paralyzing energy crisis. Few people or enterprises have heat or electricity in winter. Because of an outstanding debt of approximatedly 500 million dollars, Turkmenistan, the country's principal natural gas supplier, refused to continue exports to Georgia except on a cash payment basis. Georgia relies upon its own precarious hydro-electric power and decrepit mazout-fired power stations. Industrial output of state enterprises in 1994 was one-fifth of the 1990 level, and the decline was not arrested in 1995. Less than 20 percent of the country's industries are currently operating, and those are running at less than 15 percent of capacity.

Georgia's foreign debt is currently estimated at over one billion dollars. The country is heavily dependent upon humanitarian donations from the U.S. and the European Union (EU) for grain and heating oil. The financial system is based almost entirely on concessional foreign credit. Foreign investment and trade are minimal because of the payment problems, energy shortages, a poor transportation and communication infrastructure, and the lack of an effective legal system. Although the corruption and crime profile has improved since 1994, these elements continue to stifle business and deter foreign investors.

2. Exchange Rate Policies

The exchange rate of the lari is determined at the Tbilisi Interbank Currency Exchange auctions, which are held three times per week. Thus far, the National (Central) Bank is seeking to peg the lari to the dollar. Since its introduction in September, the exchange rate of the lari has fluctuated between 1.30 and 1.25 to the dollar, with some appreciation against the dollar. The difference between official and banknote rates is insignificant.

There are no major exchange controls that would affect the price competitiveness of U.S. exports. Both residents and nonresidents may hold foreign exchange and local currency accounts and may freely transfer these balances offshore. Individual Georgian banks, however, may have difficulty transferring large amounts because of foreign exchange shortages. A requirement to surrender 32 percent of foreign exchange earnings at the interbank auction exchange rate is slated for removal.

3. Structural Policies

Pricing policies: Most prices have been liberalized. In 1994 the few remaining state-administered prices for bread, gas, electricity, municipal services, pharmaceutical products, and mass transportation were sharply raised to market levels. All prices, except electricity, bread, and some municipal services are market-determined. The bread price is expected to be fully liberalized at the end of 1995. Prices rose by over 24 percent two weeks after the introduction of the lari, but have subsequently stabilized and now appear influenced only by market factors.

Tax policies: Tax revenues increased to 3.4 percent of GDP in the first half of 1995 from about 2 percent in the first half of 1994. With the support of outside tech-

nical assistance, the government in late 1994 and early 1995 introduced a wide range of tax policy measures to attempt to halt the decline in revenues and improve the tax administration system. The VAT was increased from 14 percent to 20 percent, a rate so high as to stimulate tax evasion. The customs import tariff was raised from 2 percent to 12 percent. A number of goods are exempt from duty, such as raw materials and partially-assembled goods designed for manufacturing (which is also exempt from VAT). The tax on exports was abolished. Re-export of goods, if carried out within six months, is also exempt from customs duties. A presumptive tax replaced the personal income and profit tax for small-scale trading enterprises. As of May 1995, VAT and customs duties were levied on goods imported from non-CIS countries but arriving via CIS countries. As of June 1995, the exemption of excises of goods imported from CIS countries was eliminated. In July and August, as a precondition to the SBA, many exemptions for specific legal entities were eliminated; excise tax rates were increased while the number of excisable goods was reduced; and the VAT on imports of capital goods from non-CIS countries was eliminated. Exported goods are exempted from VAT and customs duties. Investments, capital and equipment of investors are exempt from import duties. Fees for the utilization of natural resources range from 1 percent (thermal waters) to 10 percent (oil and gas) of the product's cost. Enterprise property tax is 1 percent per year of the property value. Personal income tax ranges from 12 percent to 20 percent of annual incomes. Georgia's overall effective tax burden remains low-to-moderate.

Privatization: After a slow start, the pace of privatization has accelerated. Most small enterprises and housing have been privatized. A few large enterprises are partially privatized. Georgia has a voucher program, but has shielded many "strategic" enterprises and state monopolies from privatization, such as the bread corporation and the various state energy enterprises. There are no restrictions on foreign participation in the privatization of enterprises. Progress in land reform to permit the right to transfer, sell, and encumber property is the single most important reform needed for agricultural recovery. A land reform law has not been passed.

4. Debt Management Policies

Georgia's foreign debt burden far exceeds its capacity to pay. More than 80 percent of this debt was accumulated between 1991 and 1994 to finance imports of energy and wheat. By the end of 1994 Georgia had incurred external debt of almost $1 billion, the equivalent of 80 percent of its GDP. In 1994, actual debt service payments totaled less than $2 million. In the first half of 1995, non-rescheduled debt service falling due was estimated at $119 million, according to some sources, the equivalent of over 50 percent of exports of goods and nonfactor services.

Georgia has requested rescheduling from its creditors. In order to establish a track record of debt service payments, the Georgian government in 1995 established an escrow account with the Central Bank of the Netherlands to which it makes quarterly payments of $8 million. The account will be used to pay debts that have been rescheduled consistent with Georgia's capacity to pay and equal treatment of all creditors, according to IMF mandates. The government's stabilization program has stemmed the growth of new external obligations.

Georgia's largest creditors and estimates on outstanding debt include the following: (a) from the FSU: Turkmenistan, $440 million; the Russian Federation, $156 million; Armenia, $29 million; Kazakhstan, $24 million; Azerbaijan, $15 million; (b) from elsewhere: the EU, $146 million; Austria, $92 million commercial bank loan guaranteed by the Austrian government; Iran $11 million; Turkey, $42 million.

5. Significant Barriers to U.S. Exports

Georgia's policy of encouraging imports has meant few established barriers to U.S. products. A liberal law on foreign investments was enacted in June 1995, and the government's program of economic reform has promoted broad liberalization of the external trade regime. Impediments to foreign investment include the lack of appropriate commercial legislation, such as a land law that would remove restrictions on the sale of land and its use for collateral; a bankruptcy law; a securities law; and a commercial banking law. The new parliament is expected to review draft legislation on these topics in upcoming sessions. Currently, however, land cannot be purchased by a foreign investor and there are no domestic full-service commercial banks.

Georgia maintains import and re-export licenses on wild animals, birds, and plants; medicines and raw materials for medicines, and psychotropic drugs and poisons; industrial residuals; weapons and ammunition; explosives and nuclear materials. Import licenses are obtained from the Committee of Foreign Economic Relations on the basis of a preliminary decision by the appropriate branch ministry.

Requirements for customs clearance are: a contract; a license, if required; a certificate of origin; documents of sale and purchase; transportation documents; sanitary, veterinary, phyto-sanitary certificates for specific goods; registration certificate of the importing company. The quality of goods may be evaluated by customs according to specifications as supplied by exporters.

The government has limited experience with competitive bidding. Countertrade comprises over 17 percent of the country's foreign trade, with the tax of 20 percent on barter imports.

Once ratified by the parliament and the U.S. Senate, the U.S.-Georgia Bilateral Investment Treaty will provide substantial protection for U.S. Investments. Georgia is not participating in the U.S. General system of preferences (GSP) program, but is negotiating to obtain status.

6. Export Subsidies Policies

Taxes on exports have been eliminated but exports are not generally subsidized. Georgia is not a WTO member and not subject to its subsidies agreement.

7. Protection of U.S. Intellectual Property

The USG has concluded trade agreements containing commitments to protect intellectual property (IP) with all the countries making up the Newly Independent States of the former Soviet Union. The bilateral agreement with Georgia entered into force in 1993. Laws protecting patents and trademarks are adequate, but copyright protection is governed by outdated and ineffective Soviet legislation. Limited resources are available for the enforcement and protection of intellectual property.

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, but implementing domestic legislation has not been completed. In 1995 Georgia joined the Berne Convention for the Protection of Literary and Artistic Works.

A draft law on copyright will be considered by the new parliament. The absence of copyright protection has permitted some small-scale pirating of U.S. motion pictures computer software and sound recordings.

Cases of patent infringement have not been reported. Small-scale brand counterfeiting is known to have taken place. 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 still uses the old Soviet labor code, with some amendments that have been introduced since 1991.

a. *The Right of Association.*—The labor code allows workers freely to form unions and associations. These associations must register with the Ministry of Justice. A single confederation of trade unions made up of about 30 sectoral unions is active in Georgia, however, with the collapsed economy, membership in the trade unions has fallen.

b. *The Right to Organize and Bargain Collectively.*—The labor code allows workers to organize and bargain collectively. Anti-union discrimination is prohibited.

c. *Prohibition of Forced or Compulsory Labor.*—The labor code prohibits forced or compulsory labor and provides for sanctions against violators. Violations are rare. The Ministry of Employment and Social Services enforces the law.

d. *Minimum Age for Employment of Children.*—According to the labor code, the minimum age for employment of children is 16 years. In exceptional cases and with the consent of trade unions, young people who have reached 15 years can be employed. The minimum age is widely respected.

e. *Acceptable Conditions of Work.*—Acceptable conditions for work generally follow the old Soviet pattern. A nationally mandated minimum wage applies only to the government sector, where 22 wage "ranks" are accepted. In October 1995 the government raised the minimum wage to 6 lari ($4.80), and the maximum wage to 25 lari ($20.10). Private sector workers are free to bargain for any wage. The government provides a 40 hour workweek and 48 hour rest period. Government adopted a 35 hour workweek for the winter period from November 15, 1995 through February 15, 1996. The labor code permits higher wages for hazardous work and allows a worker to refuse to perform his/her duties should the work pose danger to his/her life. Generally there are insignificant 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. Data on U.S. investment in Georgia is not available.

GERMANY

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1991 prices)	1,742.4	1,828.3	2,110.6
Real GDP Growth Rate (percent)	−1.2	2.9	2.5
GDP by Sector (1991 prices):			
Agric./Forestry/Fishing	27.4	26.9	N/A
Manufacturing/Mining/Construction	606.9	639.4	N/A
Trade/Transportation	255.2	262.0	N/A
Services	559.8	595.3	N/A
General Government/Households	242.4	249.4	N/A
Real GDP Per Capita (US$)	23,491	25,146	25,833
Civilian Labor Force (million)	38.6	38.7	38.6
Unemployment Rate[2] (percent—annual average)	8.9	9.6	9.3
Money and Prices:			
Money Supply (M3)[3]	1,152.5	1,194.4	1,304.1
Commercial Interest Rate (pct)[3]	10.16	9.32	8.49
Personal Savings Rate (pct)[4]	12.9	12.2	12.2
Retail Inflation (1985=100)[5]	112.1	113.4	114.7
CPI (1991=100)	109.8	112.8	115.2
WPI (1985=100)[5]	95.7	97.2	99.1
Exchange Rate (annual avg/US$)	1.6544	1.6218	1.44
Balance of Payments and Trade:			
Total Exports (FOB)	379.9	425.8	500.0
Total Exports to U.S.	28.3	33.4	38.0
Total Imports (CIF)	342.4	380.7	444.4
Total Imports from U.S.	24.4	27.4	32.0
Gold and Forex Reserves[3]	45.6	45.6	55.4
External Public Debt	299.2	307.9	N/A
Trade Balance	37.4	45.2	56.0
Balance with U.S.	3.9	6.0	6.0

[1] Estimates based on latest available data.
[2] Percent of civilian labor force.
[3] 1995: latest available data.
[4] Bundesbank definition.
[5] Western Germany only; all German GDP data are incomplete.

1. General Policy Framework

The German economy is the world's third largest and attained a GDP equivalent to just over USD 2.0 trillion (in nominal terms) in 1994. In that year, the economy grew by 2.9 percent, recovering strongly from the recession year of 1993 when the German economy contracted by 1.1 percent. In late 1995, the economy appeared to be on a continued growth path, albeit at a slower pace. The German "social market" economy is organized on free market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health and educational benefits. One of the world's foremost trading nations, Germany since reunification in 1990 experienced a substantial decline in its foreign trade surplus due to the demands of integrating the economy of the erstwhile GDR. The German parliament ratified the Uruguay Round agreement in 1994.

In the 1990's, German fiscal policy has been driven by the financial exigencies of the country's reunification. The country's social welfare system was extended to eastern Germany, and the government further committed itself to quickly raising 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 some five percent of 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 narrowed the federal budget deficit through a variety of tax and fee increases, public spending restraint and cuts in certain social benefits. The overall public sector borrowing requirement (broadly measured to include all levels of government as well as hitherto "off-budget" funds and agencies) has declined since peaking in 1993 and likely will be some DM 100–105 billion in 1995. Due to a variety of factors, including moderate tax relief, it will rise marginally in 1996.

In the early part of the current decade, relatively high rates of inflation were experienced (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, 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 5.25 percentage points, with the most recent cut occurring in August 1995. In 1995, wage settlements were less moderate than in the previous two years, but inflation has declined to less than two percent. The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which normally is ten years (the government last issued a 30-year bond in January 1994, for the first time in over a decade). 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 November 15, 1995 was 3.5 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 is characterized by a substantially higher level of direct government participation in the production and services sector than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions has worked to limit market entry by not only foreign firms but also 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 rethinking of the German post-war economic consensus in the so-called "Standort" debate. The government has declared a rollback of the State's role in the economy to pre-reunification levels to be a principal objective of economic policy.

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:

—A rigid labor market;
—A regulatory system which discourages new entrants especially in the services sector;
– High taxes and social charges; and
—Lack of risk and venture capital for start-up firms.

In recognition of the above problems, the government has been pursuing a program of reforms since the mid-1980's focusing on tax reform, privatization and deregulation. In recent years, the government has carried out a reorganization of the German Federal Railroad, and completed transforming the operating entities of the German Federal Post into stock companies. The government plans to offer shares to the public in 1996 in one of the latter corporations, telecommunications giant Deutsche Telekom, in what would be the largest stock offering in history. A listing of some Telekom shares on a U.S. stock exchange is likely, and the Government further is committed to opening the telecommunications network monopoly to competition as of 1998. The federal government also has reduced its majority holdings in

the national airline Lufthansa to less than 36 percent with the objective of selling the entire stake, although the original target date of end-1995 will not be met. U.S. firms are likely to benefit from these developments as purchasing decisions are driven more by commercial criteria than in the past. The introduction of competition in formerly protected sectors should result in lower user costs, as well.

Despite the progress in recent years, lack of competition remains a problem in many protected sectors which drives up business costs in Germany. The service sectors which continue to be subject to excessive regulation and market access restrictions including communications, energy, retail distribution, banking and insurance. The government intends to modify existing legislation which limits firms' pricing and marketing ability in conjunction with adoption of Europe-wide competition rules, as well as to review laws which limit competition in the banking, insurance and transportation and telecommunications sectors. Although opposition from small shop owners continually has derailed attempts to revise Germany's highly restrictive regulations on store hours, it appeared likely in late 1995 that the Government had fostered enough political momentum to liberalize this long-standing hallmark of overregulation of the German economy. Paralleling German government efforts to deregulate the economy, 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. Although the trade surplus grew by better than DM 50 billion from 1991 to 1994, persistent pressure from payments to foreign investors (a result of the heavy foreign borrowing needed to finance reunification), declining income from foreign (mostly U.S.) military personnel in Germany and growing transfers to the European Union will continue to result in a negative current account balance for the foreseeable future. Nonetheless, due to large current account surpluses from the 1970's until the current decade, Germany remains the world's second largest creditor, with net foreign assets estimated at some USD 185 billion at the end of August, 1995.

5. Significant Barriers to U.S. Exports

Germany is one of the most important trade partners worldwide for the U.S. and its 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 tariff quota for "dollar" bananas under the EU's banana import regime).

Services Barriers: Conditions of access vary considerably but the Embassy has heard only a few complaints. Some progress has been made in participation of foreign companies in banking and other financial services, although access in the insurance market is still limited. Telecommunications services are being increasingly deregulated, and a large step will be taken in 1998 when new EU rules are scheduled to take effect. Germany has no foreign ownership restrictions on telecommunications services open to competition.

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 can 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), a process which can complicate access to the market for many U.S. products.

Government Procurement Practices: Selling to German government entities is not always an easy process. German government procurement is largely non-discriminatory and appears to comply with the General Agreement on Tariffs and Trade (GATT) and the plurilateral Agreement on Government Procurement (AGP), to which the EU is a party, as well as the terms of the U.S.-FRG Treaty of Friendship, Commerce and Navigation. It can nonetheless be difficult for foreign suppliers to

compete head to head with major German suppliers who have long-term ties to German government purchasing entities. Those areas which fell outside of AGP coverage before the conclusion of the Uruguay Round, such as military procurement or procurement of services, have been traditionally the most susceptible to these problems. With the implementation on January 1, 1995 of the Uruguay Round agreement, coverage commenced for some procurement in these areas.

Germany has now implemented the EU utilities directive and its related remedies directive. However, Germany has not yet implemented Article 36 of the directive, which would allow a small price preference for EU suppliers in bid awards. Under the US-EU memorandum of understanding on procurement of heavy electrical equipment, U.S. firms enjoy rights equivalent to European firms under the utilities directive in this sector. Despite these formal agreements, U.S. equipment makers continue to express frustration about market access barriers to the German power generation market. An allegation by a U.S. firm of irregularities in a 1994 bid award was finally upheld by a German tender review board in 1995, but the process proved difficult and time consuming, and no remedy has yet resulted.

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 obstructive.

Customs Procedures: Customs procedures at German ports-of-entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

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 Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, 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 (Germany's 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, with certain exceptions.

Legislation to transpose the EU 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 about the level of software piracy in Germany.

The concerns of U.S. firms in the area of piracy of software and certain sound recordings were to have been addressed when Germany implemented its commitments under TRIPs portion of the Uruguay Round this year. Although the German government has now completed the legislative changes it believes were mandated by the TRIPS agreement, it remains to be seen whether these changes have fully addressed U.S. concerns.

8. Worker Rights

a. *The Right of Association.*—The constitution guarantees full freedom of association (Article 9). Workers' rights to strike and employers' rights to lock-out are also legally protected activities.

b. *The Right to Organize and Bargain Collectively.*—The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is uncommon. Basic wages and working conditions are negotiated at the industry level and then are adapted, through local collective bargaining, to particular enterprises.

However, some firms in eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. The law mandates a system of works councils and worker mem-

bership on supervisory boards, and thus workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against antiunion discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—The German constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children.*—German legislation in general bars child labor under age 15. There are limited exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work.*—There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between industrial unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors With U.S. Investment.*—The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support Chambers of Industry and Commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,020
Total Manufacturing		22,131
Food & Kindred Products	2,103	
Chemicals and Allied Products	4,152	
Metals, Primary & Fabricated	1,469	
Machinery, except Electrical	4,359	
Electric & Electronic Equipment	1,306	
Transportation Equipment	5,180	
Other Manufacturing	3,562	
Wholesale Trade		4,049
Banking		2,283
Finance/Insurance/Real Estate		6,716
Services		946
Other Industries		1,741
TOTAL ALL INDUSTRIES		39,886

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

GREECE

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
GDP (1988 prices)[2]	62.2	63.1	64.4
Real GDP growth (percent)	−0.5	1.5	2.0
GDP (at current prices)[2]	80.6	84.0	97.2
GDP by Sector:			
Agriculture	8.2	8.7	11.1
Energy and Water	2.0	2.1	2.9
Mining	0.6	0.6	0.9

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Manufacturing	10.0	10.4	13.2
Construction	6.1	6.3	7.5
Rents	12.7	12.5	12.6
Financial Services	15.5	16.4	18.2
Other Services	10.8	11.5	14.6
Government, Health and Education	13.9	14.4	15.2
Statistical Discrepancies	0.8	1.1	1.0
Net Exports of Goods and Services	−9.0	−9.7	−10.4
Real per capita GDP (1988 prices—US$)	6,005	6,041	6,095
Labor force (000s)	4,118.4	4,167.7	4,210.0
Unemployment rate (percent)	9.7	9.6	9.5
Money and Prices (annual percentage growth):			
Money supply (M3) (end period)[3]	15.0	8.3	7.0
Base Interest Rate[4]	27.0	25.0	18–24
Personal Saving Rate	17.0	16–17	13–15
Retail Inflation	14.4	10.9	9.3
Wholesale Inflation	11.9	8.6	7.5
Consumer price index	14.4	10.9	9.3
Exchange rate (DRS/US$): Official	229.3	242.6	231.0
Balance of Payments and Trade (millions of dollars):			
Total Exports FOB[5]	5,034.3	5,218.9	6,500.0
Exports to U.S.[6]	377.1	455.0	N/A
Total Imports CIF[5]	17,615.5	18,741.7	21,500.0
Imports from U.S.[6]	820.5	687.2	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	27,275.0	32,654.0	35,000.0
Debt Service Payments (paid)	6,987.4	8,406.1	11,000.0
Gold and Forex Reserves	8,693.6	15,431.6	16,000.0
Trade Balance[5]	−12,581	−13,523	−15,000
Balance with U.S.[6]	−443.4	−232.2	N/A

[1] 1995 figures are all estimates based on available monthly data in November 1995.
[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).

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 3.9 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 of national accounts, which boosted GDP by 23 percent by including some previously unrecorded incomes in its measurements, some economic activity still remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due at least in part to deficient data collection). With about 66 percent of GDP deriving from services (including government services), 24 percent from industry (13 percent from manufacturing, 7 percent from construction, 3 percent form electricity and 1 percent from mining) and 10 percent from agriculture, Greece is an import-dependent country, importing more than it exports. In 1994, Greece had a trade deficit of 13.5 billion dollars on a total two-way trade of 23.9 billion dollars. The trade balance in the first seven months of 1995 has worsened by 28 percent mainly due to the appreciation of the drachma against the dollar. 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 period 1994–99. However, the Greek government has been slow in drawing upon these funds. The Uruguay Round Agreements were ratified by the Greek Parliament on January 23, 1995.

Greece, as a member of the EU, is currently striving to reduce its budget deficit, debt, and inflation rate in order to meet the prerequisites for European Monetary Union. The 1994–99 Convergence Program approved by the EU provides a blueprint for achieving Greece's economic goals. The government continues efforts to lower inflation and to reduce net borrowing as a percent of GDP from 12.5 percent in 1994 to 10.1 percent in 1995. It is also concentrating its efforts on ending tax evasion and instituting an incomes policy aimed at protecting the real income of workers.

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 effectively. It is estimated that the public sector employs about 15 percent of the total labor force.

Greece's social security program has also been a major drain on public spending. Moreover, the state owns a number of loss-generating companies. Deficits are financed primarily through government securities (treasury bills and long-term bonds).

Tax forms introduced in 1994 aimed to crack down on tax evasion, broaden the tax base, and raise taxes. These reforms, which took effect in 1995, have been implemented with some success. Tax receipts have increased but still higher receipts will be needed to meet the revenue targets.

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 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 and state bonds are issued by the Ministry of Finance but they are expected to fall within the monetary program prepared by the Bank of Greece.

2. Exchange Rate Policies

The government's anti-inflationary "strong drachma" policy continued throughout 1994. In 1995, the authorities have pursued the same policy more vigorously. The drachma depreciated by 6.7 percent against the ECU in 1994 and is projected to depreciate by an additional three percent in 1995. The drachma has been appreciating against the dollar in 1995 and similarly has appreciated against some of the currencies of its Mediterranean competitors. The appreciation of the drachma against other currencies is the main reason for the deterioration of Greece's trade balance in 1995 (see above). Greece retains a "crawling-peg" system and allows a limited depreciation of the drachma against the ECU. 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. Most restrictions on short-term capital movements were lifted in 1994. This move brought Greece in line with EU rules on free movement of capital. However, significant bureaucratic obstacles in short-term capital movements still remain. (For example, compliance with tax laws must be demonstrated prior to the transfer of capital and financial institutions must "monitor" the investment.)

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.

Although Greece's Convergence Plan provides for the sale of minority stakes in some state-owned companies, the government's willingness to see this program through has been half-hearted, and thus far, most privatization efforts have failed. An attempt to sell a minority stake in the Hellenic Telecommunications Organization (OTE) in 1994 was unsuccessful. Plans to sell the state-owned shipyard of Skaramangas were blocked by a militant labor union, while another, previously privatized shipyard returned to state control after its new owners declared bankruptcy.

Pricing Policies. The only remaining price controls are on pharmaceuticals and rents, although some rents have now been freed. About one quarter of the goods and services included in the consumer price index (CPI) are produced by state-controlled companies, and the government retains considerable indirect control over pricing.

Government-set prices and subsidies (such as public transport prices) distort the domestic economy, but they are not barriers to U.S. exports.

Tax policies. New tax legislation passed in April 1994:

—increased the top personal income tax rate from 40 to 45 percent for incomes exceeding 65,000 dollars annually;

—imposed presumptive taxation on a large number of professionals on the basis of a number of factors, including (but not limited to): the location and type of business, the number of years in operation, and the imputed rent of the property; and

—increased the corporate tax rate from 35 to 40 percent for all non-public corporations. In practice, this has meant that U.S. and other foreign bank branches (due to their particular organizational structure) are required to pay a taxation rate of 40 percent, while other companies pay only 35 percent. The U.S. and other governments believe this practice to be in violation of OECD and EU regulations.

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 all remaining items. A four percent VAT applies to periodicals and books.

4. Debt Management Policies

Greece's General Government debt (Maastricht definition) was 30.9 trillion drachmas, or 121 percent of GDP in 1995 (end August). This includes military debt which accounts for 3.3 percent of GDP. Foreign debt does not affect Greece's ability to import U.S. products.

Servicing of external debt in 1994 (interest and amortization) was equal to 161.1 percent of exports and 8.8 percent of GDP. About 64 percent 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 received a balance of payments loan from the EU.

5. Significant Barriers to U.S. Exports

Greece has both EU-mandated and Greek government-initiated trade barriers. Apart from the EU, it maintains specific barriers in services such as law, auditing, aviation, tourism and motion pictures:

—Greece maintains nationality restrictions on a number of professional and business services, including legal advice. Restrictions on legal advice do not apply to EU citizens, and U.S. companies can generally circumvent these barriers by employing EU citizens. In December, a Greek effort to impose burdensome qualifications on non-Greek accountants was ruled a violation of Greece EU commitments by Greece's Council of State. It is not known how this ruling will affect auditing business in Greece.

—Foreign air carriers may not sell ground-handling services to airlines. The Greek flag carrier, Olympic, has a monopoly in providing ground services to other airlines, that must either contract from Olympic or self-handle. (U.S. and EU airlines must provide their own ground handling services or obtain them from Olympic).

—Greek residents are limited on the amount of foreign exchange they may spend on personal travel abroad to 2,000 ECUs (2,600 dollars) per trip.

—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.

—Greece restricts foreign and domestic private investment in public utilities.

—U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in the banking, mining, broadcasting and transport sectors, and in land purchases in border areas.

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece also adheres to EU procurement policy, and Greece has also recently joined the GATT Government procurement code. Greek willingness to join this code is a positive step and

reflects an improvement in the procurement situation. As a result of the new Greek attitude, some U.S. companies are finding it easier to participate in tenders and some are winning sizable contracts.

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. It is also a widely-held belief that firms from other EU member states have an automatic advantage over non-EU contenders in winning Greek government tenders. It has been noted that U.S. companies submitting joint proposals with European companies are more likely to succeed in winning a contract. The real impact of Greece's "buy national" policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are stressed.

6. Export Subsidies Policies

The Greek government allows exporters to pay commissions and expenses to support exports. Some agricultural products (most notably cotton, olive oil, tobacco, cereals and certain fruits and vegetables) 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

In theory, Greek laws extend protection of property rights to both foreign and Greek nationals. Greece is a member to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, and the Berne Copyright Convention. As a member of the EU, Greece is in the process of harmonizing its legislation with EU rules and regulations.

Despite Greece's voiced commitment to copyright protection, piracy of copyrighted material remains widespread. Greece took a major step toward addressing this problem by enacting a new copyright law in February 1993 (Law 2121/93), which offers a high standard of protection for all copyrighted works. Furthermore, Law 2328/95 (voted in the summer of 1995 and effective as of August 3, 1995) establishes a new systematic legal framework for the radio-television market, whose anarchic development encouraged copyright piracy. The U.S. and Greece have agreed, in principle, on the need for an ambitious enforcement of the new legislation but, so far, Greece has been unwilling to initiate meaningful enforcement actions against pirate TV stations (close or fine). Due to the piracy situation, Greece was elevated in December 1994 to the USTR's "Priority Watch List" under the "Special 301" provision of the 1988 Trade Act. The U.S. government is closely monitoring Greece's efforts towards an effective enforcement of existing legislation. In November 1995, however, Greece was reconfirmed as the sole EU member country on the "Priority Watch List".

Intellectual property appears to be adequately protected in the field of patents and trademarks. Patents are available for all areas of technology. Compulsory licensing is not used. Greek trademark legislation is fully harmonized with that of the EU, and trade secrets are protected by law for a period of twenty years. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by labor-market rigidities. Greek labor law prohibits laying off more than two percent per month of total personnel employed by a firm. This restricts both the flexibility of firms and the mobility of Greek labor. There is also a highly centralized system for negotiating rational wage agreements.

a. *The Right of Association.*—Approximately 30 percent of Greek workers are organized in unions, most of which tend to be highly politicized. While unions show support for certain political parties, particularly on issues of direct concern to them, they are not controlled by political parties or the government in their day-to-day operations. The courts have the power to declare strikes illegal, although such decisions are seldom enforced. Employers are not permitted to lock out workers, or to replace striking workers (unless they are public sector employees under civil mobilization).

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 for Employment of Children.*—The minimum age for work in industry is 15, with higher limits for certain activities.

e. *Acceptable Conditions of Work.*—Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job-related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate.

f. *Rights in Sectors With U.S. Investment.*—Although labor/management relations and overall working conditions within foreign business enterprises may be among the most progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy. In some instances, the government has hinted that it would make special exceptions to the two-percent-per month rule described above, as a means of attracting potential foreign investors to Greek companies. No such deals have been cut to date.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		124
Food & Kindred Products	(1)	
Chemicals and Allied Products	56	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		32
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		446

[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]

	1993	1994	1995 [2]
Income, Production and Employment:			
Real GDP Index (1985=100)	84.5	89.5	N/A
Real GDP Growth (percent)	0.1	2.9	1.5
GDP (at current prices) [3]	32,771.6	35,268.2	51,559.5
GDP by Sector:			
Agriculture	2,264.10	2,616.11	2,918.0
Energy and Water	1,345.06	1,145.88	1,286.2
Manufacturing	7,515.21	8,057.82	9,268.5

Key Economic Indicators [1]—Continued

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

	1993	1994	1995 [2]
Construction	1,812.26	2,033.18	2,258.8
Rents	4,479.57	4,912.80	5,410.0
Financial Services	1,581.92	2,335.55	2,411.6
Other Services	8,837.46	9,199.05	11,639.9
Government, Health and Education	6,059.32	6,573.46	6,061.1
Net Exports of Goods and Services	7,990	7,558	N/A
Real per capita GDP (US$)	3,734	4,100	4,200
Labor Force (000s)	4,596	4,443	[4] 4,372
Unemployment Rate (percent)	11.3	10.2	[4] 9.3
Money and Prices (annual percentage growth):			
Money Supply [5]	16.6	18.9	N/A
Base Interest Rate [5]	21.0	25.0	27.0
Personal Savings rate [5]	6.0	9.0	7
Retail Inflation	25.5	22.0	28.5
Wholesale Inflation	10.3	11.2	24.0
Consumer Price Index	22.5	18.8	28.5
Exchange Rate (forints/US$):			
Official [5]	92.04	105.5	124.4
Parallel	100	110	130
Balance of Payments and Trade: [6]			
Total Exports FOB	8,906.9	10,700.8	[7] 5,297.4
Exports to U.S.	373.4	430.5	[7] 176
Total Imports CIF	12,530.3	14,553.8	[7] 7,589.5
Imports from U.S.	300.4	451.7	[7] 227
Aid from U.S.	155	193	N/A
Aid from Other Countries	813.6	978.9	N/A
External Public Debt (billions US$)	24.6	28.5	32.3
Debt Service Payments (paid) [8]	4,806	6,214	4,180
Gold and Foreign Exchange Reserves (billions US$) [5]	6.7	6.8	8.1
Trade Balance	−3,623.4	−3,853.0	[7] −2,292
Balance with U.S.	−73.0	−42	[7] −51

[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] Total GDP as provided by the Central Statistical Office. It includes mining, quarrying and costs related to financial services that are not included in the GDP by sector.
[4] First three quarters in 1995.
[5] Source: National Bank of Hungary.
[6] Source: Ministry of Industry and Trade, except where otherwise noted.
[7] January-July 1995.
[8] Medium term credit amortization and gross interest payment; doesn't include prepayments. Source: National Bank of Hungary.

1. General Policy Framework

Hungary extensively liberalized its trade regime after the end of communism in 1989. Ninety percent of imports no longer require prior government approval. The revised Foreign Exchange Law, which goes into effect January 1, 1996, makes the Hungarian forint essentially convertible for current account transactions. The Socialist/Free Democrat coalition government which took office in July 1994 formulated its economic policy to lower the fiscal and current account deficits. It introduced a stabilization and restructuring program, referred to as the Bokros Package, in March 1995. The government is a founding member of the World Trade Organization (WTO), and was a signatory to the Uruguay Round Agreement of late 1994.

Hungary has one of the highest per capita foreign debts in Europe. The National Bank of Hungary (MNB), through active debt management, is evening out interest and principal payments on the debt. Cash reserves are estimated at over $8 billion, or six to seven months of import coverage. The government has financed the fiscal deficit primarily through issuing government bonds, both domestically and abroad. The consolidated budget deficit in 1995 is expected to equal 6.5% of GDP.

In March of 1995, Finance Minister Bokros announced a stabilization program designed to decrease the fiscal and current account deficits. The program cut government expenditures, increased revenues, devalued the Hungarian forint (HUF) by 9%, introduced a pre-announced crawling peg exchange rate policy, added an 8% import surcharge and put a ceiling on wage increases in state-owned companies at four to 5% below the rate of inflation. The government projects a $2.8–3 billion current account deficit for 1995.

Promotion of foreign direct investment continues to be a government priority, in part to offset the current account deficit. The government approved in September 1995 four tax bills, to be submitted to Parliament, that include measures to attract investors. Hungarian law allows the establishment of companies in customs-free zones exempt from customs, foreign-exchange requirements, and indirect taxation tied to the turnover of goods.

The MNB carries out monetary policy using open market operations to a large extent. The Bank 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.

2. Exchange Rate Policies

The revised Foreign Exchange Law makes the forint almost fully convertible for current account transactions, but not for capital account movements. Currently, the forint is pegged to a currency basket consisting of the U.S. dollar (30%) and the European Currency Unit (70%). The crawling peg devaluation system in place since March 1995 has worked well. The MNB announced that the forint will be devalued by 1.2% per month in the first half of 1996; the second half rate is currently undecided but will not exceed 1.2% per month. Improved fiscal and current account situations, along with adherence to the crawling peg devaluation, could help cut inflation from about 30% in 1995 to an annual rate of under 10% by the fourth quarter of 1997.

Although the forint continues to be a managed currency, it is in essence fully convertible for business purposes. Foreigners may freely repatriate profit dividends in hard currency. Steady progress has been achieved in the liberalization of foreign exchange controls. Foreigners are allowed to maintain forint accounts and Hungarians can maintain local hard currency accounts.

3. Structural Policies

There are no centrally-determined prices for most consumer products and services in Hungary. However, the state continues to control the prices for public transport and utilities such as gas, electricity, and water. The government raised energy prices in January and September 1995. They are slated for further hikes in the spring and fall of 1996, and in January 1997, at which time they should equal world levels. Energy production and distribution are undergoing privatization, with significant minority shares to be sold off by late 1995 or early 1996. In agriculture, the government offers a wholesale floor price for unprocessed agricultural products, though this policy has no impact on U.S. agricultural exports to Hungary.

The government is in the process of instituting a western-style tax and treasury system. Corporate profits are taxed at 18% if plowed back into the company, and at 23% if returned to investors as dividends. The Parliament is considering a 50% preference for a maximum of five years on investments of at least HUF one billion (currently 130 HUF equals one dollar), or for ones that increase exports by more than HUF 600 million, and a 100% tax holiday for investments in underdeveloped regions. Local governments will have increased authority over local taxes. The government also proposes to decrease the 44% employers' contribution to social security to 40%, and increase the 10% employees' contribution to 12%.

The "Competition Act" (Act LXXXVI of 1990 on the Prohibition of Unfair Market Practices, a comprehensive law intended to foster a competitive market), addresses consumer fraud, the restriction of competition, abuse of a dominant market position, and unfair competition. This Act created the Economic Competition Office responsible for investigating and stopping unfair market practices.

4. Debt Management Policies

Hungary has one of the highest per capita foreign debts in Europe, with gross foreign debt estimated at $32 billion and net foreign debt at $21 billion as of mid 1995. Despite this, it has never sought debt rescheduling, and has made full interest and principal payments on time. The government may conclude a standby credit agreement with the International Monetary Fund early in 1996. The government has reserves of over $8 billion, and expects that an improving current account balance and increased foreign investment will lessen its debt-servicing 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, there are peak rates which are exceptionally high (for example, almost 50% on luxury automobiles). In March 1995 Hungary introduced an 8% import surcharge which the government plans to eliminate by mid-1997.

Hungary imposes a $750 million global quota on imports of consumer goods. American companies complain that they have been unable to obtain sufficient quotas to supply the market. Additionally, by the terms of the Association Agreement with the European Union (EU), Hungary has reserved quota allotments for imports from the EU. As a result of the Uruguay Round, quotas on agricultural products and processed foods have been replaced by tariffs.

Foreign companies complain that the implementation of new regulations with no advance notice disrupts trade. In early 1995, for example, an unannounced 70% import tax increase on soft-drink syrup upset the business plans of U.S. soft drink producers. (The U.S. companies, however, successfully lobbied the government and received a one-year moratorium on the tax.) Item-specific taxes and strict enforcement of licensing regulations have also affected U.S. firms in Hungary.

While the foreign investment market in Hungary is substantially liberalized, there are still some potential barriers. The law on concessions (Act XVI of 1991) authorizes the state to provide investors with concessions in return for their investment in infrastructure. Foreign ownership of 100% is allowed in sectors open to private investment, with investment restrictions in defense-related industries, the media, and farmland.

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 a foreign investment the right to transfer abroad 50% of after-tax salaries. Foreign investors are also allowed to keep convertible currency contributions to a foreign exchange account. Companies registered in Hungary are no longer compelled to sell foreign exchange receipts from exports to the National Bank within eight days of receipt, as was the case until mid-1995.

The Hungarian Parliament passed a new law on government procurement which came into effect on November 1, 1995. Under the new law, public tenders must be invited for purchases of goods with a value over 10 million forints, construction projects worth 20 million forints, and designs and services worth over 5 million forints (130 forints equal one dollar). This law will help open market access for foreigners. Bids containing a greater than 50% Hungarian content will be given a 10% price preference. This procurement process will not apply to military purchases, or to gas, oil, or electricity contracts.

A new Law on Privatization, passed in May 1995, improved transparency and initiated a simplified process. After a slow start, privatization seems to be in the process of speeding up. Currently about 55% of the country's GDP is produced by the private sector; the government eventually would like to boost this share to 75–80%.

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 custom-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.

The Hungarian Standardization Office (MEI) oversees the standards system. Hungary 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.

6. Export Subsidies Policies

There are no export subsidies on industrial products, but some agricultural product groups receive a percentage subsidy from the state. The Export-Import Bank and the Export Credit Guarantee Ltd., both founded in 1994, provide credit or credit insurance for 8 to 10% of total exports. Hungary signed the Uruguay Round Agreement and belongs to the WTO. Agricultural subsidies in 1995 exceeded Uruguay Round agreements by over 60% in value, and covered more products than agreed to in the Hungarian subsidy schedule. The government claims that faulty base period calculations and local currency inflation help explain the discrepancies. Discussions continue on how to resolve this problem.

7. Protection of U.S. Intellectual Property

The Hungarian legal system protects the acquisition and disposition of property rights. Act II of 1969 (as amended) on the Patent Protection of Inventions provides basic protection for inventions. The Patent Act provides 20 years of protection from the date of filing at the National Office of Inventions. Licenses may be granted. The government may order compulsory licensing to a Hungarian enterprise in instances of a patent not being 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. The list of protected works expressly includes "Computer programs and the related documentation" (software). Numerous firms complain that significant amounts of pirated or counterfeit software, sound recordings, etc., are marketed in Hungary.

Act IX of 1969 on Trademarks and related decrees governs the registration and protection of trademarks. The application process can take from six months to a year. Foreigners are required to appoint a Hungarian attorney to represent them. Applicants may appeal to the Supreme Court decisions by the National Office of Inventions to deny an application or cancel a registration. Registrations are valid for 10 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," disclosing them to unauthorized persons or making them public.

A draft Media Law scheduled for a parliamentary vote in late 1995 includes provisions that require firms in the electronic media to respect international copyrights of intellectual property. Pending legislation includes enforcement provisions against individual offenders as well as corporate violations, and could affect license renewals. This legislation, if passed, will help safeguard U.S. intellectual property rights in the growing electronic media.

Two 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 (IPR) Treaty. Law Number VII (1994) on the Amendment to Industrial Property and Copyright Legislation, effective July 1994, amended several existing laws and extended patent protection for pharmaceutical and chemical products. The Law addressed who controls the rights to intellectual property, extended and unified the terms of protection, expanded protection for the original layout designs incorporated in semiconductor chips, provided 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." It made available enforcement procedures under civil, criminal, or administrative law to permit effective action against IPR infringement.

Hungary belongs to the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Nice Agreement on Classification and Registration of Trademarks, the Madrid Agreement concerning Registration and Classification of Trademarks, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Berne 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 plural-

ism. 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 enterprise and industry level. Minimum wage levels are set by the Interest Reconciliation Council (ET), a forum for tripartite consultation among representatives from the employers, employees, and the government. Higher wage levels (but not lower ones) may be negotiated at the plant level between 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 drafts labor-related legislation, and 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 for Employment of Children.*—Labor courts uphold a minimum work age of 16 years, with exceptions for apprentice programs, which may begin at 15. There is no 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 conditions of employment such as; termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlements, conflict resolution.

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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		−1
Total Manufacturing		392
Food & Kindred Products	(1)	
Chemicals and Allied Products	−15	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		69
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		−3
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,106

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

IRELAND

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990) Prices[2]	43,197	46,728	53,154
Real GDP Growth Rate (percent)[3]	3.1	6.4	6.25

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
GDP (at current prices)[2]	47,296	52,112	60,389
GDP by Sector:			
Agriculture/Forestry/Fishing	3,798	4,074	N/A
Industry	15,791	17,712	N/A
Distribution, Transport and Communication	6,624	7,527	N/A
Public Administration/Defense	2,499	2,645	N/A
Other Domestic	15,157	16,686	N/A
Adjustment for Financial Services	−1,999	−2,340	N/A
Exports of Goods and Services	32,168	37,536	44,824
Real Per Capita GDP (US$)	12,342	13,351	15,187
Labor Force (000's)	2,030	2,103	2,293
Unemployment Rate	15.6	14.8	14.25
Money and Prices (annual percentage growth):			
Money Supply (M3) Year-End	17.3	19.2	[4]20.1
Base Interest Rate (CBI)[5]	3.75	3.0	[4]5.47
Personal Saving Rate	3.0	2.0	2.0
Consumer Price Index (Nov. 89=100)	1.5	2.4	[1]2.8
Retail Sales Index (1990=100)	1.4	5.5	[6]3.0
Wholesale Price Index (1985=100)	4.6	1.1	[6]2.0
Exchange Rate (IP/US$)	0.68	0.67	[7]0.62
Balance of Payments and Trade:			
Total Exports (FOB)[8]	29,150	34,185	40,115
Exports to U.S.	2,631	2,856	[9]3,550
Total Imports (CIF)[8]	21,881	25,787	30,165
Imports from U.S.	3,721	4,710	[9]3,800
Aid (principally EU) (US$ '000)	21,784	21,360	21,834
External Public Debt	18,044	17,277	N/A
Debt Service Payments (Paid)	3,393	3,341	N/A
Gold and Foreign Exchange Reserves (End December)	4,278	4,041	N/A
Trade Balance[8]	7,269	8,400	9,950
Balance with U.S.	−1,090	−1,854	[9]−250

[1]Forecasts.
[2]GDP at constant market prices.
[3]Percentage changes calculated in local currency at constant market prices.
[4]August 1995 figures.
[5]Annual averages.
[6]Second quarter 1995 figures.
[7]Third quarter 1995 figures.
[8]Merchandise trade.
[9]Projections based on USDOC six-month figures.

1. General Policy Framework

Ireland has a small open economy which is very dependent on trade. Exports of goods and services in 1994 were equivalent to 79% of GNP, while imports were equivalent to 63% of GNP. The government generally formulates policies to facilitate trade and inward direct investment. Over the last seven years, Ireland's rate of economic growth has been more than twice the EU average. Ireland achieved this despite tight fiscal policies, without fuelling inflation. Growth has been widely based, with exports, private investment and personal consumption growing steadily.

The volume of fixed investment grew by over 7% in 1994. Consumer confidence and spending increased by over 5% in 1994, reflecting the favorable general economic climate, increasing employment, and low interest rates. Consumption growth is expected to continue in 1995. Irish living standards are converging towards those in Europe. Over the last ten years living standards have risen from about 56% of the EU average to about 87% in 1995. Although unemployment is high at 14.25%, there are signs of improvement: the results of a recent labor force survey reveal an annual increase in employment of 49,000 (or 4% of total employment).

Ireland assumes presidency of the European Union (EU) in the latter half of 1996. An intergovernmental conference on the revision of the Maastricht Treaty will run

in parallel with the presidency in Dublin. The Irish presidency is likely to be dominated by debates on European Monetary Union (EMU), a single currency, and institutional changes necessary to meet the demands of enlargement of the Union. In addition to the demands of the presidency, the government will continue to pursue its policies toward establishing peace in Northern Ireland.

Ireland receives financial assistance from the European Union's Structural and Cohesion Funds which amount to a total of 6.7 billion Irish Pounds (approximately $10.8 billion) for the period 1993–1999. Financial support is also provided by the International Fund for Ireland (IFI), established in December 1986. Under the agreement establishing the IFI, approximately 75% of the Fund's resources are to be spent in Northern Ireland. However, the six border counties of the Republic have benefited considerably from IFI projects. Total resources provided through the Fund have been over $300 million, with the United States as principal contributor with $230 million through Fiscal Year 1994.

Fiscal policy: The government is committed to meet economic targets that will allow it to participate in EMU in 1999, and it is one of only three EU member countries that currently meet EMU convergence criteria. In order to meet Maastricht criteria, the government's fiscal program includes strict limits on public expenditure. Successive governments have made considerable progress in reducing budget deficits and containing the growth of total debt. In particular, budget deficits have fallen dramatically, with the annual government deficit below the Maastricht criteria of 3% of GDP since 1989. Ireland's debt burden has fallen from about 116% of GDP in 1986 to under 92% in 1994, a decline that the government plans to continue in order to approach the Maastricht criteria of 60% of GDP.

Most collective bargaining in Ireland takes place in the context of a national economic program negotiated every three years by the "social partners," i.e. representatives of unions, employers, farmers, and the government. The current 3-year agreement, entitled "The Program for Competitiveness and Work" (PCW) expires in December 1996. As in the past, the PCW establishes standard pay increases and fixes a cap on any increases with its aim to maintain Irish competitiveness.

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, the government made substantial progress in relation to income tax and has reduced the standard and higher rates by six points, respectively. While value added tax (VAT) rates and many excise taxes are the subject of harmonization in the EU, Irish VAT rates are among the highest in the EU. They were streamlined in the 1994 budget, and remain unchanged in 1995. The standard corporate tax rate is 38% (reduced from 40% in the 1995 budget).

Monetary Policy: The objective of Ireland's exchange rate and monetary policy continues to be the maintenance of low inflation together with exchange rate stability within the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). Interest rates are the predominant tool used by the Central Bank to affect monetary variables, and the government's intention is to keep rates as low as possible.

2. Exchange Rate Policies

Maintaining the Irish Pound within a 15% band against other ERM currencies will enable Ireland to meet EMU convergence criteria. When Ireland joined the ERM in 1979, it broke its link to the British currency. It has, however, endeavored to maintain a stable competitive exchange rate against Sterling due to the large amount of trade carried on between Ireland and the United Kingdom. Because of the dependence of the Irish Pound on Sterling markets, the Irish government is concerned about the possibility of an opt-out from EMU by the United Kingdom. Ireland, along with other EU member states, 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.

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. Following abolition of the Irish Exchange Controls Act in 1992, legislation was introduced to enable the government to continue to impose financial sanctions (i.e. on Iraq and former Yugoslavia) to meet international obligations.

3. Structural Policies

European Union Membership has brought Ireland unhindered access to the European market, but Ireland has had to make adjustments to its economy in order to meet the demands of international competition. Ireland has received significant financial support from the EU in its efforts to reform its economy. Under the present round of EU Structural and Cohesion Funds, Ireland is to receive a total of 6.7 billion Irish Pounds (approximately $10.8 billion) for the period 1993–1999. While aiming to meet EMU convergence criteria set out in the Maastricht Treaty, the government seeks to ensure that inflation remains in low single figures and that unemployment does not rise. The government also aims to improve economic efficiency by promoting reforms in the transport, telecommunications, and energy enterprises in the commercial semi-state sector.

Tax Policies: The Irish corporate tax system favors manufacturing and exporting companies. The standard corporation tax rate is 38% (reduced from 40% in the 1995 budget). Manufacturing companies, firms engaged in international financial services, data processing, research and development and other priority industries are eligible for a corporate tax rate of only 10%, a policy designed to boost industrial development. Thus, the development of export and manufacturing industries is encouraged to the detriment of other industries. The 10% corporate tax rate (export and manufacturing companies) has been extended by the government to the year 2010.

In the 1995 budget, the standard rate tax band was extended from $24,600 to $28,658 for a married couple and from $12,300 to $14,329 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 $36,708 if married, and $18,354 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% of their earnings for a variety of social security programs. The national standard rate of VAT remains at 21%. The lowest VAT rate of 12.5% applies to labor-intensive services, including the construction sector. A 2.5% rate, however, applies to agricultural items.

Regulatory Policies: The government weights its investment incentives toward high technology, export-oriented companies. Capital grants by the Irish Industrial Development Authority (IDA) reportedly have tended to favor capital-intensive over labor-intensive investments.

4. Debt Management Policies

Ireland's total exchequer debt amounted to about $43.8 billion, or about 95.5% of estimated 1994 GNP, from 99.6% at end-1992. 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 sale of government securities has generally financed the debt. The downward trend in the debt/GDP ratio, from 125% in 1987 to under 92% in 1994, is expected to continue with the goal of achieving the 60% debt/GDP target set by the Maastricht Treaty in provisions regarding excessive budget deficits. Ireland is expected to be the only EU member state which will have a lower debt/GDP ratio in 1995 than it had in 1991. The foreign portion of Ireland's debt in 1994 was $17 billion. Debt service costs in 1994 were $3.3 billion, about 8.9% of estimated Irish exports of goods and services and about 7.3% of GNP. Legislation enacted in 1990 provided for the establishment of the National Treasury Management Agency (NTMA), to which the government delegates the borrowing and debt management functions of the Minister for Finance.

5. Significant Barriers to U.S. Exports

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. With regard to services trade, Ireland maintains a limited number of barriers in the aviation and financial services industries. In the area of telecommunications, Ireland's offer in the WTO Telecom Services Negotiations defers openness to competition and private investment until the year 2000.

In the aviation industry, airlines serving Ireland may provide their own ground handling services, but are prohibited from providing similar services to other airlines.

The Irish banking and insurance sectors are slowly becoming deregulated. Full deregulation in insurance will not occur until 1998. 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 (internal company insurance), fund and investment

management, and corporate treasury management. Qualified financial services companies have a maximum tax of 10%, guaranteed by the government through the year 2005. The United States now has the largest representation at the IFSC with approximately 147 projects as follows: 52 stand-alone companies; 54 agency companies and 41 captive insurance companies.

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 trans-frontier broadcasting which is largely the same as the EU directive. 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, implemented by Ireland, requires broadcasters to reserve a majority of broadcast time for productions of EU origin and to reserve at least 10% of transmission time or budget for independently produced European programs. (2) The Wireless Telegraphy (Television Program Retransmission and Relay) Regulations 1991 amend the regulations under which cable and multi-channel microwave distribution systems (MMDS) licenses are issued. In short, MMDS operators will no longer require approval in advance of relaying a service.

Ireland has been a member of the World Trade Organization (WTO) since it came into effect on January 1, 1995. The WTO Agreement was ratified by the Irish Parliament in November 1994.

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% on their profits. Stockholders of companies eligible for this program pay income tax of only 10% on dividends received from the company, rather than the normal tax rate (27%–48%). 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, 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%, 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 and 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. Ireland is a member of the World Intellectual Property Organization and a party to the Paris Convention for the Protection of Industrial Property. Ireland has no restrictions on technology transfer or royalty payments.

Patents: The registration of Irish patents and trademarks is administered by the Patents Office of the Department of Enterprise and Employment. Irish patent legislation is contained in the Patents Act 1992, as are statutory rules under that Act. The normal maximum life of an Irish patent is 20 years. Legislation extending the term of protection of products covered by medicinal patents came into force on January 2, 1993.

Trademarks: The Trademark Law of 1963, and rules promulgated thereunder, embody Irish trademark laws. Existing legislation does not specifically cover service industry trademarks, although some court cases have extended protection to trademarks in service industries. The government is carrying out a comprehensive update of trademark legislation.

Copyright: The 1963 Copyright Act contains modern law of copyright in Ireland. On July 1, 1995, Ireland implemented the European Union's Term of Protection of Copyright Regulation Directive 93/98/EEC (referred to as the "Term Directive"). The Directive extends copyright to life-plus-seventy-years as opposed to life-plus-fifty-years. 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 notsufficiently severe to curb pirating.

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 prohibits retribution against strikers and union leaders. The Government effectively enforces it through the Department of Enterprise and Employment. About 55% of workers in the private and public sectors 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.

Following more than a decade of rationalization, the Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 66 member unions with 677,560 members. Both the ICTU and the unaffiliated unions are independent of the government and of the political parties. Unions may freely form or join Federations or Confederations and affiliate with international bodies. 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 anti-union discrimination. In recent years, most terms and conditions of employment in Ireland are determined through collective bargaining in the context of a national economic pact. The current 3-year agreement, the Program for Competitiveness and Work (PCW), is a major element of the government's success in fostering economic growth. Employer interests in labor matters are generally represented by the Irish Business and Employers Confederation (IBEC).

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 prohfbited by law and does not exist in Ireland.

d. *Minimum Age for Employment of Children.*—By law, children are required to attend school until the age of 15. The employment of children under 15 is generally prohibited by the 1977 Protection of Young Persons (Employment) Act, but 14-year-olds are allowed to do light non-industrial work during school holidays with the written permission of their parents. They are limited to working 7 hours per day and 35 hours per week. For children of age 15, the Law limits work time to 8 hours per day and 40 hours per week. For those of age 16 or 17, the limits are 9 hours per day and 45 hours per week. These provisions are enforced effectively by the Department of Enterprise and Employment.

e. *Acceptable Conditions of Work.*—There is no general minimum wage legislation, but there are several minimum rates of pay applicable to specific industrial sectors, mainly those with lower-than-average wages.

Although the lowest of these minimum wages would not be sufficient to provide a decent living for a family of four, low-income families are entitled to additional benefits such as subsidized housing and children's allowances. The standard workweek is 39 hours. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime is limited to 2 hours per day, 12 hours per week, and 240 hours in a year. The Department of Enterprise and Employment is responsible for enforcing four basic laws dealing with occupational safety that provide adequate and comprehensive coverage.

f. *Rights in Sectors With U.S. Investment.*—Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5,766
Food & Kindred Products	294	
Chemicals and Allied Products	2,628	
Metals, Primary & Fabricated	215	
Machinery, except Electrical	128	
Electric & Electronic Equipment	693	
Transportation Equipment	57	
Other Manufacturing	1,752	
Wholesale Trade		273
Banking		(1)
Finance/Insurance/Real Estate		3,729
Services		487
Other Industries		54
TOTAL ALL INDUSTRIES		10,337

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

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

ITALY

Key Economic Indicators

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

	1993	1994	1995 [1]
Income, Production and Employment:			
Real GDP (1985 prices) [2]	496.5	507.3	536.5
Real GDP Growth (percent) [3]	−1.2	2.2	3.0
GDP (at current prices)	986.1	1,017.4	1,070,3
GDP By Sector:			
Agriculture	33.5	34.4	N/A
Energy	26.5	28.7	N/A
Manufacturing	193.8	232.9	N/A
Construction	54.1	52.4	N/A
Rents	76.2	82.2	N/A
Financial Services	49.1	45.0	N/A
Other Services	370.7	383.7	N/A
Government, Health, and Education	182.1	186.9	N/A
Net Exports of Goods and Services	28.3	29.4	N/A
Real Per Capita GDP ('85 BPS, US$)	8,782	8,973	9,245
Labor Force (000s)	22,802	22,681	22,692
Unemployment rate (percent)	10.2	11.3	11.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.2	1.6	4.0
Base Interest Rate [4]	11.4	9.8	11.4
Personal Savings Rate	18.0	18.8	18.6
Retail Inflation	4 2	3.9	5.6
Wholesale Inflation	3.7	3.8	8.5
Exchange Rate (Lira/US$—annual average):			
Official	1,572	1,613	1,630
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [5]	169.4	189.4	132.6

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exports to U.S.	13.0	14.7	9.6
Total Imports CIF[5]	148.2	167.4	117.8
Imports from U.S.	7.8	7.8	5.2
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	50.1	58.9	64.5
Debt Service Payments (paid—millions)	N/A	9.2	10.5
Gold and Foreign Exchange Reserves	49.2	56.0	61.0
Trade Balance[5]	21.1	22.0	14.8
Balance with U.S.[5]	5.3	6.9	4.4

[1] 1995 Figures are all estimates based on available monthly data in October 1995.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Figures are actual annual rates, not changes in them.
[5] Merchandise trade.

1. General Policy Framework

The Italian economy is the world's fifth largest, having undergone a dramatic transformation into an industrial power in the last 50 years. A member of the Group of Seven (G–7), OECD, GATT, WTO, IMF, other multilateral organizations, 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 should lead to a significant reduction in state ownership. To date, several large financial institutions and some industrial concerns have been privatized. Key state monopolies in energy, electricity, and telecommunications are slated for privatization in 1996. Foreign firms, including U.S. firms, have been active both as purchasers of privatizing companies as well as privatization 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 that produce for domestic and export markets.

Italy's large public sector deficit and public debt constitute its most pressing economic problem. The stock of debt is currently estimated to be 123% of GDP. The budget deficit is expected to be about 7.4% of GDP in 1995. Since 1992, successive governments have implemented deficit reduction policies designed to alter the underlying trend deficit. The 1995 trend deficit is expected to be reduced by about 69 trillion lire ($42 billion). The government budget for 1996, with spending cuts and increased revenues of approximately 32.5 trillion lire ($20 billion), aims to reduce the deficit to 5.8% of GDP. Deficit reduction in 1996 will be primarily through a combination of 18.0 trillion lire in new net revenues and 14.5 trillion in net reduced spending.

Given Italy's fiscal imbalances, the primary objective of monetary policy is to support financing the budget deficit in the least inflationary manner. The government will try 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. This shift is necessary in light of the integration of European capital markets. The Bank's 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.

2. Exchange Rate Policies

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 se-

vere pressures in foreign exchange markets, the Italian Government devalued the lira by 7% 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 European Union (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.

Debate over possible lira re-entry into the ERM has increased as January 1, 1996 approaches. This is widely seen as the date in which countries wishing to be in the core group of European Monetary Union (EMU) members in 1999 must be full participants in the EMS. Given current discussions about EMU implementation under the Maastricht Treaty, and a growing perception in financial markets that Italy will not be among the EMU core group, the January 1 date will probably not see a return of the lira into the EMS system.

3. Structural Policies

Italy has not implemented any structural policies over the last two years which impede U.S. exports. Ongoing irritants regarding access by U.S. banks and financial service firms to the Italian market appear to be heading toward a solution. Several characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a heavy state role in the productive sector. Increased competition from abroad as well as European Union requirements have begun to eliminate some of these structural barriers.

Privatization over the last two years is the most visible attempt to reduce the state role in the economy. The sale of several major banks, an insurance firm, and several industrial concerns, and the anticipated sale of major sector utilities in 1995/96, will significantly reduce the government's involvement in the economy. The privatization process has been open to foreign participants, and U.S. firms have been active as advisors in privatizations, as well as buyers of privatized assets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors of national interest, or in cases which create anti-trust concerns.

Italy has taken steps to modernize its financial and banking sectors. The 1993 single banking law removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives in 1996 should introduce further competition into the sector. U.S. banks and financial service firms continue to remain at somewhat of a disadvantage vis-a-vis European and/or Italian competitors because of special capital adequacy requirements (for banks) and establishment rules (for securities firms) which differ from those for EU and/or Italian institutions. These issues are being addressed in bilateral discussions and via modifications in legislation to conform to EU regulations. U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets.

Government procurement practices are not completely competitive, with procurement in certain areas heavily directed toward Italian suppliers. Transparency can be inadequate in the procurement process. Other than in agriculture, taxes and customs duties do not present serious obstacles to U.S. exports, other than the usual level of bureaucratic red tape which marks most transactions in Italy.

4. Debt Management Policies

Although Italy has not had external debt or serious balance of payments problems since the mid 1970's, its domestic public debt is extremely high, slightly over 123% of GDP in 1995. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign denominated debt essentially as a source of diversification, rather than because of need.

5. Significant Barriers to U.S. Exports

Italy's highly-fragmented and sometimes non-transparent government procurement practices have created obstacles to U.S. firms' participation in Italian government contracts. On January 13, 1994, the Italian Parliament enacted legislation (Merloni law) aimed at providing more transparent procurement procedures, including establishment of a central body to monitor implementation. Due to its complexity, the bill has never been fully implemented.

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. Sanitary and phytosanitary requirements also are used to restrict

or hamper imports of U.S. products such as beef, some seeds for planting, citrus fruit (other than grapefruit), forest products, and seafood. Finally, qualitative restrictions also hamper U.S. bull semen imports into Italy.

The state regulates tightly telecommunications services through a monopoly on voice telephony (except for cellular service) 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 demonstrated. Mobile phone services are no longer the monopoly of the state-owned telephone utility, Telecom Italia. As this went to press, Omnitel, holder of a second cellular operating license, planned to begin commercial cellular service. The Omnitel consortium has one-third 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). In their place it 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 will be expected to adopt EU standards. In sectors such as pollution control, the consistency 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. Nevertheless, the market remains restrictive. U.S. carriers have expressed concern over a range of business issues which relate to the lack of competition in the provision of services at international airports.

While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits from the many-layered Italian bureaucracy, and foreign investments often receive close scrutiny. These lengthy procedures can, in and of themselves, present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport, aircraft manufacturing, and the state monopolies (e.g., railways and tobacco manufacturing).

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 1995, several major financial institutions and industrial concerns had been privatized. U.S. firms served as advisors in several of these privatizations. The government has begun the process of privatizing ENI, which should be followed by the electricity and telecommunications sectors in 1996. Foreign firms, including U.S. firms, have expressed interest in upcoming privatizations. The full implications of this privatization process are unclear. The Merloni Law, for example, extends public works regulations not only to the government-controlled parastatal holding companies, but to holders of major state concessions or licenses.

Local practice and national legislation severely restricts the expansion of modern distribution methods, such as chain stores, department stores, supermarkets,

hypermarkets, and franchises. Officials subject applications for large retail units above a certain merchandising area 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 to the national economy" if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision in the law applies to purchases by foreign entities of five or more percent of an Italian credit institution's equity.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) agreements on export subsidies. Through the EU, it is a member of the GATT Subsidies Code, and as a World Trade Organization member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as an extensive array of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides 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 Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

Since 1989, the U.S. Trade Representative has placed Italy on the intellectual property rights "watch list" under the Special 301 provision of the United States Trade Act of 1988, primarily reflecting problems with protection of copyrights for computer software and film videos. Enactment in Italy (at the end of 1992) of the EU software directive making software copyright violations a criminal offense was a major step forward. In response to U.S. IPR concerns, the Italian authorities have created an Interministerial Anti-Piracy Committee, introduced IPR training courses for law enforcement officers, and created specialized "pools" of prosecutors charged with combating intellectual property crimes in major municipal centers (i.e., Milan, Rome, and now Naples). Italian implementation of the EU Rental Rights Directive in November 1994 established explicit protection for rental, distribution, and lending rights, as well as penal sanctions against the bootleg recording of performances. A decree issued in June 1995 (and renewed after three months) extended copyright protection in Italy from 50 to 70 years in accordance with the EU Directive on Copyright Duration; this decree took immediate effect, but still must be confirmed by parliament.

Application of the December 1992 software law appears to be making a significant dent in Italy's software piracy problem. U.S. industry reports that Italian enforcement actions against software pirates have continued to increase. As a result of these actions, the industry estimates that the rate of software piracy rate in Italy declined from about 86% in 1992 to 57% in 1994, and legitimate software sales have expanded rapidly as businesses have moved to legalize their holdings.

Film video piracy remains a serious problem. U.S. motion picture distributors estimate that some 40% of the video market consists of pirated material. According to U.S. distributors, the television piracy rate ranges from 6%–8% and unauthorized film screenings account for 15%–20% of all showings. U.S. industry has noted a significant increase in raids and confiscation of illegal cassettes and equipment. The Prime Minister's office recently proposed drafting of new anti-piracy legislation for the audiovisual sector that would impose administrative penalties and increase criminal sanctions for more serious offenses. The United States will continue to monitor closely developments in this area.

8. Worker Rights

a. *The Right of Association.*—The Workers Statute of 1970 provides for the right to establish trade unions, to join unions and to carry out union activities in all workplaces employing more than 15 employees (5 employees in the agricultural sec-

tor). Trade unions are free of government controls and they no longer have formal ties with political parties. The Constitution provides for the right to strike, which is frequently exercised. A 1990 law restricts strikes affecting essential public services such as transports, sanitation, and health.

The 1970 Workers Statute prohibits employers from taking retribution against strikers (other than deduction of wages for the duration of the strike). Hiring of personnel to replace strikers is effectively prohibited. The Government enforces labor legislation fully.

The right to establish trade union work councils in multinational corporations is now supported by an EU Directive, formally adopted by the EU Social Affairs Council in September 1994. The legislation is intended to ensure that worker representatives in companies employing more than 1,000 people and more than 150 in at least two member states are consulted in cross-border decisions that affect them, such as redundancies and investment relocation. It is estimated that 1,200 companies fall under the scope of the directive, many of them U.S. multinationals.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right of workers to organize and bargain collectively and the Government does not hinder this. By custom (though not by law), national collective bargaining agreements apply to all workers regardless of union membership.

The law prohibits discrimination by employers against union membership and organizers. It also requires employers found guilty of antiunion discrimination to reinstate workers fired for union activities if the firm has more than 15 employees. A 1990 law covering enterprises with 15 or fewer employees requires that the employer must state the grounds for firing an employee to the court in writing; if the judges reject the grounds, the employer must either reinstate or compensate the worker.

There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and it does not occur.

d. *Minimum Age for Employment of Children.*—The law provides that no child under 15 years of age may be employed (with some specified exceptions). The Ministry of Labor may authorize the employment of children aged 13 or 14 for certain jobs. There are also specific restrictions on employment of males under age 18 and females under age 21, in various hazardous or unhealthful occupations. Enforcement of the minimum age laws is effective only outside the extensive underground economy, which is mainly in Southern Italy.

e. *Acceptable Conditions of Work.*—Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. When an employer and union fail to reach an agreement, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

The law establishes standards for work hours, and collective labor contracts have reduced them. Average work hours are 37–39 hours per week, but most collective agreements provide for a 36 to 38-hour workweek. The basic law of 1923 provides for a maximum workweek of 48 hours, with no more than 6 days per weekend 8 hours per day, except that the latter can be exceeded in some specified kinds of jobs. Women are usually forbidden to work at night, but some 1995 national labor contracts have removed this prohibition. Overtime may not exceed a given ceiling which varies among national contracts. Recently employers have tended to use overtime extensively, since it is often less expensive than hiring new workers. Both unions and government are trying to include ad hoc provisions in the 1996 budget law aimed at reducing the use of overtime.

Basic health and safety standards and guidelines for compensation for on-the-job injuries are set in an extensive body of laws and regulations. On November 7, 1995, the Italian government issued regulations for legislative decree 626/1994, implementing the EU directive on health and safety in the workplace. However, at the request of businessmen, the decree delays implementation of various provisions, thus exempting small enterprises from the new EU standards until January 1997.

While enforcement of health and safety regulations is entrusted to labor inspectors, they are few.

f. *Rights in Sectors With U.S. Investment.*—Conditions donot 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		422
Total Manufacturing		8,582
Food & Kindred Products	608	
Chemicals and Allied Products	2,448	
Metals, Primary & Fabricated	225	
Machinery, except Electrical	2,388	
Electric & Electronic Equipment	891	
Transportation Equipment	191	
Other Manufacturing	1,831	
Wholesale Trade		2,034
Banking		315
Finance/Insurance/Real Estate		2,263
Services		1,180
Other Industries		203
TOTAL ALL INDUSTRIES		14,998

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

KAZAKHSTAN

Key Economic Indicators[1]

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

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP Growth (percent)	−15.6	−25.4	[3] −14.1
GDP (at current prices)	4,708.4	8,998.3	
		[3] 7,614.8	
GDP by Sector:			
Agriculture	602.8	1,260.8	N/A
Energy and water	N/A	N/A	N/A
Manufacturing	1,455.5	2,332.8	N/A
Construction	435.8	814.63	N/A
Transport and Communication	275.1	710.5	N/A
Housing	92.5	690.1	N/A
Financial Services	101.1	142.4	N/A
Trade and other branches	422.2	1,410.9	N/A
Other Services	1,029.9	1,262.2	N/A
Government, Health and Education	293.4	374.0	N/A
Net Exports of Goods and Services	−580.9	−430.3	1,004.6
Per Capita GDP (US$)	277.5	535.26	455.9
Labor Force (000s)	9,379.5	9,240.5	[4] N/A
Unemployment Rate (percent)	0.58	1.05	1.6
Money and Prices (annual percentage growth unless noted):			
Money Supply (M2)[5]	1,333.9	991.1	1,508.4
Base Interest Rate (percent)[6]	240	300	45
Retail Inflation[7]	1,296.7	2,297.5	534.9
Wholesale Inflation	1,142.8	3,018.0	283.2
Consumer Price Index	1,758.4	1,977.4	329.8
Exchange Rate (US$/tenge):			
Official	5.7	50.0	63.1
Parallel	7.5	56.0	63.5

Key Economic Indicators [1]—Continued

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

	1993	1994	1995[2]
Balance of Payments and Trade:			
Total Exports FOB	3,323.5	3,285.4	N/A
Exports to U.S.	145.3	75.1	33.2
Total Imports CIF	4,927.1	4,495.0	N/A
Imports from U.S.	24.2	109.3	51.7
Aid from U.S.[8]	42.4	139.3	47.17
Aid from Other Countries	24.5	49.8	[4]N/A
External Public Debt[9]	N/A	2,055.0	2,500.0
Debt Service Payments (paid)	118.7	671.0	N/A
Gold and FOREX Reserves	722.9	1,004.0	1,356.9
Trade Balance	−1,204.8	−919.5	−198.1
Balance with U.S.	183.8	−34.2	−18.5

[1] Source: Kazakhstan State Committee for Statistics (GOSKOMSTAT), unless otherwise indicated. 1993, 1994 and 1995 figures are converted from tenge at the official exchange rates as indicated above.
[2] First nine months of 1995, unless otherwise indicated.
[3] First six months of 1995.
[4] Indicator is accounted annually.
[5] Source: National Bank of Kazakhstan.
[6] Average weighted interest rate for six-month national bank of Kazakhstan credits. Figures represent rates for December 1993, May 1994 and November of 1995.
[7] All price indexes are given in percent to corresponding period of previous year.
[8] Source: U.S. Agency for International Development (U.S. Aid) and U.S. Interagency estimates. The 1994 figure represents all U.S. aid of that year, while the 1995 figure is the planned amount.
[9] Estimate from press conference of Deputy Prime Minister Nagashbay Shaykenov on October 17, 1995.

1. General Policy Framework

Kazakhstan continues to suffer through a severe economic crisis, except for the small but dynamic private sector (mostly trade and services). Positive results of economic reform are emerging, however. The decline in industrial output slowed in 1994 and 1995, and Gross Domestic Product (GDP) dropped. Agricultural production continued to decline, partially due to drought. Inflation has been contained at about two to three percent monthly. Average wages increased in dollar terms. However, this increase was offset by inflation and did not match cost of living increases in 1994 or the first half of 1995. 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, especially the tightening of monetary and fiscal policy and closer regulation of sovereign debt. Currently, macroeconomic reforms are outpacing microeconomic reforms. Thus, accelerated privatization (particularly for mid-sized and large enterprises) and an improved business climate are vital.

In November 1995, President Nazarbayev replaced the Ministers of Defense, Economy, Transport/Communications, Interior (Security), Ecology and Biologic Resources, and Justice and shuffled his own staff. On average, the incoming ministers are ten years younger than their predecessors. In general, the government shake-up is viewed as a positive step towards accelerating the pace and scope of economic reform in Kazakhstan. During 1995, President Nazarbayev issued a number of decrees on economic topics, including those on the Tax Code, the Customs Code, Precious Metals, Oil, Insurance, Bankruptcy, the National Bank and Licensing. These decrees enjoy the full force of law in the absence of a parliament (dismissed in March 6, 1995 for election irregularities). But they are legitimized by a new constitution (passed by national referendum on August 30, 1995), which strengthened executive power at the expense of the legislature. Although a new parliament was elected in December 1995, it remains to be seen whether, especially in the absence of further political reform, the new government can implement economic reform quickly enough to alleviate social ills and meet public expectations.

Fiscal Policy: The 1995 fiscal deficit was approximately 26.18% of the budget and 3.5% of GDP. The 1995 deficit was funded primarily by foreign loans and National Bank of Kazakhstan (NBK) credit resources. The proposed 1996 budget, released on December 7, 1995, projects a deficit of approximately 22.95% of the budget and 3.5% of GDP. About 90% of the projected 1996 budget deficit is to be financed through foreign loans and NBK credit resources. The International Monetary Fund (IMF) is targeting the 1996 budget deficit at 2.5% of GDP.

The 1996 budget proposes large increases in total expenditures. Overall, the 1996 budget proposes a nominal 15% increase in spending from 1995, with a nominal 18.2% increase in projected total revenues. The new Tax Code provides for a Corporate Income Tax Rate of 30%, a Personal Income Tax Rate of 40%, and VAT of 20%. The overall number of different taxes has been reduced from 47 to 11.

Monetary Policy: During the first nine months of 1995, the money supply increased 76%, although inflation has been held to 42% during the same period. Sales of three-month and six-month bills continued in 1995. Between January 1 and December 1, 1995, over 90 auctions have been held by the NBK.

2. Exchange Rate Policies

When it introduced the Kazakhstan national currency, the tenge, in November 1993, the government artificially maintained the exchange rate against the dollar. The currency was not traded initially. However, upon advice from U.S. officials and international observers, the government later permitted the tenge to be traded and now the government permits the tenge to float against the dollar, as well as the German mark and the Russian ruble. Although the tenge continued to depreciate slowly against the dollar in 1995, it occasionally showed signs of firming. Fluctuations of exchange rate in 1995 decreased significantly due to the NBK's policy of stabilizing the exchange rate. In general, the slow and steady changes have not been destabilizing.

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% on the local market.

3. Structural Policies

Pricing Policies: the government continues to exert price controls and provide subsidies for certain consumer commodities. However, there appears to be little, if any, impact on U.S. exports to Kazakhstan. In general, the prices of consumer goods are determined by market demand.

Tax Policies: Kazakhstan adopted a modern Tax Code, which reduced the number of major taxes to value-added tax (VAT), Income, Profit, Excise. According to the proposed 1996 budget, government revenues will be primarily derived from corporate income taxes, a VAT, and export duties.

On October 23, 1993 Kazakhstan signed a treaty with the United States on the avoidance of double taxation. To date, the treaty remains unratified by either the Kazakhstani Government or the U.S. Senate. Consideration on the U.S. side has been held up by the introduction in Kazakhstan of legislation permitting anonymous bank accounts. The Kazakhstani Government has pledged to take measures to ensure that banks may collect information on the owners of anonymous accounts and that the Ministry of Finance may transmit that information to the Internal Revenue Service (IRS) in the case of an IRS investigation.

Regulatory Policies: Government regulatory policies are extensive and complex. Implementation of these regulations remains capricious (often varying among ministries), and a major source of corruption. U.S. and western business representatives often complain about the lack of standard licensing procedures among government ministries in Almaty, and increasingly, among local authorities as well. The new regulation on licensing procedures will be in place in 1996.

4. Debt Management Policies

Kazakhstan has accepted joint and several liability for all Former Soviet Union (FSU) debt. Accordingly, Kazakhstan was assigned a 3.86% share of the FSU's total debt, or approximately $2.5 billion. While acknowledging its formal obligations, Kazakhstan negotiated the "zero option" agreement with the Russian Federation. Under this agreement, Russia would accept full responsibility for FSU debt, in return for all foreign assets of the FSU. Kazakhstan has initially agreed, but the agreement must be accepted by all successor states. It is *de facto* in operation, in that Russia has assumed all FSU debt.

To date, Kazakhstan has not paid off its 1992, 1993, or 1994 obligations under the existing debt. Kazakhstan has paid short-term obligations, but commercial creditors have experienced some repayment delays. Currently, Kazakhstan has incurred over $1.3 billion in interstate debt, primarily to the Russian Federation for gas and fuel payment arrears. The $115 million Russian lease payment for Baykonur cosmodrome is to be applied directly to Kazakhstan's debt to Russia. Kazakhstan has $6 million in arrears to the U.S. Export-Import Bank. Barter also appears to be growing as an alternative to hard currency payments.

Overall external debt of the Kazakhstani government equals $2.5 billion. However, the National Bank of Kazakhstan, as opposed to the government as such, holds foreign exchange and gold reserves amounting to $1.8 billion. At year end

1995, the government was still attempting to identify an appropriate payment mechanism. Excluding the United States, Kazakhstan has received credit 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-American Enterprise Fund (CAAEF), and the Defense Enterprise Fund have expressed general willingness to provide funding for U.S.-Kazakhstan commercial projects, although a crisis in Kazakhstan's debt repayments slowed such lending at year end 1995. Funding for defense conversion projects is provided separately under the Nunn-Lugar legislation. In addition, international financial institutions 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. exports. The government appears to have adopted a strategy of relatively low import barriers to encourage international exports to Kazakhstan. U.S. exports to Kazakhstan appear to be limited by the logistical ability of private firms to service the Kazakhstan market and by the inability of local firms to obtain commercial credit.

Structural barriers include a weak system of business 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 the huge government bureaucracy. In fact, U.S. and western business representatives have noted that the government bureaucracy is the single biggest obstacle to doing business in Kazakhstan. A new Commercial Code and corresponding regulations are expected to be adopted in 1996.

Import Licenses: As of December 1995, no import licenses were required by U.S. businesses. The government limited imports by taxes: VAT in the amount of 20% and customs duties for cars in the amount of 80%. 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, duties for alcoholic beverages and cigarettes have been increased under this policy.

Services Barriers: Certain restrictions on the import of services exist. In particular, in April 1993 the government banned foreign insurance companies from providing foreign investment insurance. However, in mid-1994 the government established a government-supported monopoly in this area. Excluding the single western reinsurance firm designated by the government, no U.S. or western firms were then permitted to offer foreign investment insurance services in Kazakhstan. A new Insurance Decree in 1995 will apparently rectify a number of these shortcomings, but implementing regulations have yet to be established. In contrast, a number of U.S. firms offering accounting and legal services are currently operating in Kazakhstan. U.S. and foreign airlines are welcome.

Standards, Testing, Labeling, and Certification: Government observance of old Soviet standards, testing, labeling, and certification requirements are extensive in some areas, non-existent in others. In general, such standards reflect Soviet practice, specifying in great detail certain dimensions and other parameters, while often failing to establish practical measures of effectiveness, which would permit the application of the best (and cheapest) available technology. Thus, such requirements constitute a barrier when differing 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 capital in domestic enterprises for servicing loans, and the lack of capital to meet equity percentages in joint ventures. In addition, U.S. firms cannot currently purchase land since that sector has yet to be privatized. U.S. firms can only obtain leasing rights for a maximum of 99 years through a domestic partner. Further, the government and local authorities have, at times, insisted that U.S. firms support and invest in social programs for local communities.

As a result of the auctioning of large scale enterprises, a secondary market in corporate securities has started developing. Infrastructure for capital markets is also growing. The National Security Commission is regulating the process of capital markets development.

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 and Belarus, amounting to a de facto Customs Union. Kazakhstan still uses customs procedures from the old Soviet Union, which can be cumbersome and frustrating for foreign businesses. Most imported goods transit through other newly inde-

pendent states, unless they arrive by air or via China. Foreign firms can import items for their own use duty free.

6. Export Subsidies Policies

Rather than provide export subsidies to domestic enterprises, the government currently taxes them. The precise export tax varies according to the product and can range up to 30%. In addition, Kazakhstan has protested restrictions on its exports (mostly metals) imposed by the United States and the European Union (EU) under antidumping laws. In 1992, the U.S. Department of Commerce reached a consent decree with Kazakhstan limiting uranium exports and imposed a 104% 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 exports went to Russia.

In 1993, the government moved to further limit and 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 nonferrous 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% surrender requirement for export proceeds, although this may be reduced to 50%.

The average export tariff is 4.1%, while the import tariff is 7.5%. However, the problem of increased import tariffs will be relived when Kazakhstan accedes to the World Trade Organization (WTO). The process of applying to WTO is monitored in Kazakhstan by USAID. The Memorandum of Foreign Trade Regime, which is an application to WTO, will be ready for submission to WTO in summer 1996.

7. Protection of U.S. Intellectual Property

In principle, Kazakhstan's Civil Code protects U.S. intellectual property. However, lax enforcement and the absence of criminal sanctions have meant in practice that U.S. 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 in 1993, obligates Kazakhstan to protect 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 of 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 of a Copyright Law. To date, the Copyright Law has not been approved. If approved, 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 losses do not currently appear to be significant. 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 are generally not conducted 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 commonly available and use appears 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 Kazakhstani 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 1995 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 for 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, 1995, the official minimum wage is 300 tenge (slightly less than five dollars) per month, far from sufficient for a worker and family to live on. The legal maximum work week is 48 hours. 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, work places or enterprises with U.S. investment have significantly improved working conditions.

Most of the problems mentioned about should be mitigated during the process of accession to the World Trade Organization by Kazakhstan. Formal application to the WTO may occur in mid-1996.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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		(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.

KYRGYZ REPUBLIC

Key Economic Indicators[1]

[Millions of Soms unless otherwise noted]

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP (1990 prices)	5,800	4,280	4,088
Real GDP Growth (pct)	−18.7	−26.2	−4.5
GDP (at current prices)	5,720	10,741	10,619
GDP by Sector:			
Agriculture	1,739	2,114	4,373
Energy, Water and Manufacturing	1,579	2,557	1,741
Construction	316	446	1,724
Services and Others	1,301	2,894	2,781
Net Exports of Goods and Services	460.3	671.6	1,097
Real per capita GDP	N/A	N/A	N/A
Labor Force (000s)	1,500	1,450	1,495
Unemployment Rate (percent)	0.29	0.8	2.4
Money and Prices (annual percentage growth):			
Money Supply (M1)	N/A	124.0	N/A
Base Interest Rate[3]	N/A	N/A	42.9
Personal Saving Rate	−11.5	N/A	47.5
Retail Inflation (percent)	1,459	203.8	131.3
Wholesale Inflation (percent)	1,106	516.8	123.9
Consumer Price Index	1,462	187.2	123.0
Exchange Rate (som/US$):			
Official	7.65	10.6	10.9
Parallel	8.35	10.9	11.1
Balance of Payments and Trade (US$ millions):[4]			
Total Exports, FOB	112.1	116.5	102.0
Exports to U.S.	0	0.5	1.94
Total Imports, CIF	112.0	106.0	66.1
Imports from U.S.	15.7	2.4	2.11
Aid from U.S.	83.6	83.6	[5]35.0
Aid from other countries	N/A	28.0	11.5
External Public Debt	45.6	79.3	462.0
Debt Service Payments (paid)	2.2	24.1	62.0
Gold and Foreign Exchange Reserves	N/A	60.0	N/A
Trade Balance	51.2	34.9	35.8
Balance with U.S.	−15.7	−1.9	−0.17

[1] All figures used are from Kyrgyz government sources.
[2] Nine-months 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 1995.
[5] Fiscal years 1994 and 1995.

1. General Policy Framework

After the disintegration of the former Soviet Union (FSU) the Kyrgyz Republic (Kyrgyzstan) gained independence in 1991, inheriting an economy which was highly dependent on the trade with the FSU and budget subsidies from Moscow. Kyrgyzstan is one of the poorest of the former republics in both output and resources. Since independence there has been a sharp fall in production which continued during the first half of 1995. In mid year this drop leveled out and growth resumed in some sectors. GDP for the first nine months of 1995 dropped by 4.5% over the same period of 1994, though it is expected that the 1995 GDP will reach the projected figure of 13.6 billion soms (about $1.300 million) for the entire year, which be roughly the same as last year.

Since independence the Kyrgyz government has made major progress in transforming the economy dominated by central planning to a market oriented economy. The legal system is being reformed with major changes in tax, investment, and commercial law. Prices have been liberalized. In May 1993, an independent national currency, the Som was introduced. Since mid 1994 the exchange rate of the Som has remained stable against the US dollar.

The country is proceeding with a stabilization and structural adjustment program initiated with the support and assistance of the IMF, World Bank, the United States and other donor countries. Foreign assistance and tight monetary policy pursued by the Kyrgyz government from the end of 1993 resulted in a steady decline in annual inflation rates from 87.2% in 1994 to 23% in January-September 1995. Projected inflation for 1996 is 15%.

The National Bank of Kyrgyzstan (NBK) financed the budget deficit of 10.9% of GDP in September 1995mainly through treasury bill auctions and by World Bank balance of payments loans. The budget includes social programs, almost 60% of expenditures, defense, security, government and law enforcement funding at 20.2% and subsidies to economy at 12%. To increase revenues, the Kyrgyz government is restructuring the tax system, eliminating many taxes and broadening the tax base. New laws have been drafted on VAT, income tax, profit tax, property tax, and tax administration.

2. Exchange Rate Policies

The National Bank of the Kyrgyz Republic Interbank held foreign exchange auctions twice a week, with the exchange rate of the Som fluctuating from 10.65 soms to the US dollar in January to 10.95 soms in November. The highest point of appreciation was in August when the dollar was traded for 10.45 Soms.

Since 1994 foreign exchange bureaus and commercial banks have been permitted to buy hard currency without restrictions. This has narrowed the margin between the official auction rates and those of the commercial banks, exchange bureaus and parallel market. At the end of October the latter ranged from 11.05 to 11.20.

The NBK intends to eventually replace foreign exchange auctions by direct sales and purchases in the fledgling interbank market.

3. Structural Policies

In 1995 Kyrgyzstan continued its privatization program. To date, more than 5,300 small and medium size enterprises, constituting about 70% of all state enterprises, have been privatized. The rate of privatization is highest in the service sector followed by trade and public catering, and then industry. Reform and privatization are advancing in agriculture and property rights are being strengthened. Twenty-seven very large bankrupt companies have been put on a care and maintenance program under World Bank supervision. A portion of transport, warehouse and distribution facilities have been broken up and privatized.

Pricing Policies: Price liberalization continued in 1995. The list of goods and services whose prices continued to be regulated was further reduced. State subsidies for bread were eliminated in mid-1995 at the time of the privatization of the bread production facilities. However, prices for electricity, natural gas, and heat remain partially subsidized and controlled. The government is adjusting them in stages with the objective of full coverage of the cost of energy.

Tax Policies: Kyrgyzstan's major source of revenue for the government is the value added tax (VAT—20%) and enterprise profit taxes (35%). 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 a few luxury goods with application to imports, etc. As a temporary emergency measure, in September 1994, the government introduced a 5% sales tax on retail transactions. Imported raw materials and components labeled for foreign investment production are exempt from custom taxes.

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." 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% on profits reinvested in Kyrgyzstan; by 25%, if no less than 50% of the enterprise's products and services are exported; by 25%, if not less than 50% of production is derived from imported raw materials and components; and 25, if no less than 20% of the profit is spent on professional training. The law guarantees the right of foreign investors to repa-

triate their profits. In 1993, a special commission on foreign investment was created to register and assist foreign investors.

4. Debt Management Policies

In a July 1992 bilateral agreement, the Russian Federation took over responsibility for Kyrgyzstan's share of the former Soviet Union's external debt in return for Kyrgyzstan's share of the former Soviet Union's external assets.

Loans of other countries and international financial organizations amounted to $462 million, of which 62 million in interest payments were to be paid in 1995. As a percentage of GDP, the external debt is expected to increase from 19.3% in 1994 to 34% in 1995.

5. Significant Barriers to U.S. Exports

Kyrgyzstan lacks hard currency and despite liberal foreign exchange laws repatriation of earnings is often difficult. Kyrgyzstan's ability to import goods which require payment in hard currency is limited. Inadequate telecommunications and banking facilities, as well as extremely high transportation costs add further practical barriers to U.S. exporters.

To normalize its trade and investment relations with the Kyrgyz Republic, the United States signed a series of bilateral economic agreements. The U.S.-Kyrgyz trade agreement, which provides reciprocal most favored nation status, was concluded and entered into force in August 1992.

The same year saw the conclusion of an Overseas Private Investment Corporation (OPIC) incentive agreement offering political risk insurance and other programs to U.S. companies 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 country.

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 on intellectual property rights (copyright, patent and trademark) has been introduced in Kyrgyzstan's parliament. The U.S.-Kyrgyz trade agreement includes commitments by the Government of Kyrgyzstan to protect U.S. intellectual property.

8. Worker Rights

a. *The Right of Association.*—In February 1992 the government adopted a comprehensive law which protects the rights of 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. the government sets a minimum wage. Union members are protected by law from antiunion discrimination.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is forbidden and does not occur.

d. *Minimum Age for Employment of Children.*—The minimum age of employment is 18. Students are allowed to work up to six hours per day in summer or part-time jobs from the age of 16. Restrictions on the use of child labor were largely observed.

e. *Acceptable Conditions of Work.*—The standard workweek is 41 hours, usually within a five-day week. Safety and health conditions in factories are below Western standards. An April 1992 law established occupational health and safety standards and enforcement procedures.

f. *Rights in Sectors With U.S. Investment.*—There is no significant U.S. investment in the Kyrgyz Republic.

Data on U.S. investment in the Kyrgyz Republic is not available.

LATVIA

Key Economic Indicators

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

	1993	1994	1995[2]
Income, Production and Employment:[3]			
Real GDP (1993 prices)	2,170.1	2,182.7	[4]2,167.4
Real GDP Growth (percent)[5]	14.9	0.6	[4] −0.7
GDP (at current prices)	2,170.1	3,418.6	
		[4]4,387.8	
GDP by Sector:			
Agriculture, Forestry	230.16	266.15	341.62
Energy and Water	148.3	181.93	233.51
Manufacturing	454.49	639.09	820.30
Construction	83.77	194.84	250.08
Rents	73.77	88.42	113.49
Financial Services	80.73	228.83	293.71
Other Services	360.41	1,807.2	2,319.61
Government, Health and Education	205.84	349.42	448.50
Net Exports of Goods and Services	53.8	−251.7	−364.0
Real Per Capita GDP	846	862.9	866.4
Labor Force (000s)	1,320.3	1,300.1	1,263.0
Unemployment Rate (percent)	5.8	6.5	6.5
Money and Prices (annual percentage growth):			
Money Supply (m2x)	684.0	1,217.3	1,351.5
Base Interest Rate	27.0	26.7	26
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	35.0	26.3	25.4
Wholesale Inflation	N/A	10.7	14.6
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (Lat/US$—annual average):			
Official	0.676	0.560	0.525
Parallel	—	—	—
Balance of Payments and Trade:			
Total Exports FOB	999.4	989.7	1,204.0
Exports to U.S.[6]	22.6	50.5	78.4
Total Imports FOB	945.6	1,241.4	1,568.0
Imports from U.S.[6]	89.5	101.0	79.8
Aid from U.S.[7]	9.0	13.1	5.1
Aid from Other Countries	18.0	109.0	71.0
External Public Debt	236.4	336.7	414.4
Debt Service Payments (paid)	11.6	6.92	19.5
Gold and Foreign Exchange Reserves	448.5	612.5	[8]588.8
Trade Balance	53.8	−251.7	−364.0
Balance with U.S.[6]	−66.9	−50.5	−1.4

[1] Central Statistical Bureau of Latvia.
[2] 1995 figures are all estimates based on available monthly data in October 1995.
[3] Average exchange rate used (except for real GDP): 1993—USD 1 equals 0.676 Lat; 1994—USD 1 equals 0.56 Lat; 1995—USD 1 equals 0.525 Lat.
[4] Ministry of Finance estimate. Sector estimates based on 1995 six months data (January-June, 1995).
[5] Percentage changes calculated in local currency.
[6] Department of Commerce.
[7] USAID (fiscal year data).
[8] As of September 30, 1995.

1. General Policy Framework

Latvia is in transition from the communist system to a modern, capitalistic economy. The basic, macroeconomic, foundation for the new system has already been laid, though reform lags in privatization and commercial law development. After sharp drops in production during the first years of independence, GDP rose about 2% in 1994, primarily due to growth in the service sector, especially transportation. The banking crisis will probably brake further growth in 1995. (In 1995 the largest

and many other smaller commercial banks collapsed.) Newly established, private businesses provide the greatest stimulus to the private sector which now accounts for over 50% of GDP.

Trade policy: Latvia has been a GATT and WTO observer since 1992. In July 1994 Latvia submitted a Trade Memorandum in preparation for accession to the WTO and has begun its second round of negotiations with WTO members. Latvia follows a liberal trading regime, though the 1994 customs tariff law introduced more protective measures for agriculture. However, these tariff levels do not significantly disadvantage potential U.S. agricultural exports. In January 1995, a free trade agreement with the European Union went into effect, which reduces tariffs on most industrial productions to zero and sets out a schedule of tariff reductions over the course of five years for certain agricultural products. Latvia has also signed an association agreement with the EU and submitted its official application for membership in the Union. In November 1995, Latvia initialed a free trade agreement with EFTA. In April, 1994, a free trade agreement on industrial goods with its Baltic neighbors came into force. A further agreement on agriculture is still under negotiation as is the creation of a customs union. MFN status with Russia was granted as the result of an exchange of official letters in 1994. However, as it is not governed by treaty, the arrangement may not be binding.

Fiscal policy: The Latvian government is committed to implementing a prudent fiscal policy; inflation has been brought down from nearly 1000% in the first year of independence to 35% in 1993 followed by a gradual decline to about 25% in 1994 and 1995. However, difficulties in revenue collections as well as lax control over governmental spending led to a much larger than anticipated budget deficit in 1995. Due to these budgetary problems, the IMF suspended the recent review of the stand-by agreement. The newly elected government is negotiating a new letter of intent. A collapse in the T-bill market earlier this year, caused in part by the banking crisis, exacerbated the budget situation. The market has recovered, though at the cost of diverting funds from the private sector. In the long run, the government must improve tax collection methods and tighten fiscal accountability among the ministries.

The independent Central Bank pursues a very conservative policy, with its chief aims stability of prices and currency. The Bank's main monetary instruments are treasury bill sales and cash reserves auctions. One consequence of the tight monetary policy is the persistence of very high interest rates, which are an impediment to new business activity. Though rates have fallen over the past year, the average rate for three to six month credit is about 30%.

2. Exchange Rate Policies

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. Market forces, however, largely determined the exchange rate. In the wake of the failure of the largest commercial bank in May 1995, the Bank of Latvia used 18% of its foreign exchange reserves to bolster the lati. The situation has stabilized and the Bank has once again begun to purchase foreign exchange. The lati 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, institutions and regulatory framework to support a market economy. The government has not yet fulfilled its promise to the IMF to draft a modern bankruptcy law to replace inadequate legislation passed in 1991. The current law does not establish criteria for initiating bankruptcy procedures or provide a mechanism for rehabilitating enterprises on the brink of bankruptcy. Implementation of bankruptcy procedures is also hampered by lack of knowledge and understanding of commercial law in the civil court. (Such cases have been under the jurisdiction of the "economic" court. This institution ceased to function as of December 1995 and commercial cases will be taken up by the regional courts.)

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. In 1994 and 1995, indicative prices were set for the procurement of cereals only for the state grain reserve. Less than 8% of goods and services remained subject to control, including energy, telecommunications, rents and other public services.

Tax policies: In early 1995 the Parliament passed a series of laws establishing a modern tax structure, including a value-added tax (VAT) of 18%, a profit tax, excise and property taxes, customs duties, land and natural resource taxes, and a social security tax. The personal income tax is still under revision. A corporate income tax

of 25% has replaced the variable profit tax of 25% to 45%. In accord with the new tax package, the law on foreign investment was amended to abolish the tax holidays for foreign investments established after April 1, 1995. The social security tax is collected on all wages, fees, royalties and rewards for work; the general social security tax rate is 37% for employers and 1% for employees. As of January 1, 1995, workers will be paid social security benefits based on their contributions to the social security system, thus shifting the burden of payment from the employer to the employee. According to the new law on customs tariffs, import duties on some agricultural products are as high as 55% (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. The United States and Latvia are negotiating a double taxation treaty.

Regulatory Policies: Latvia is still in the process of creating a modern regulatory system. 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 breakup of large enterprises with high market power and can investigate claims of unfair competition and false advertising. A recent law envisages the establishment of a regulatory body to oversee the activities of the energy sector, including price setting. However, implementing legislation for this entity has not yet been drafted. In January 1995, the Latvian government promulgated regulations on securities trading. Until the securities market commission is in operation, the Ministry of Finance supervises the securities market.

Privatization: Privatization of large scale industry and revival of the manufacturing sector has not yet been very successful. Privatization has progressed the furthest in agriculture and agribusiness, followed by very small scale manufacturing and retail trade previously under the direction of local governments. Privatization of large state enterprises, which has lagged other reform measures, picked up steam with the creation in April 1994 of the Latvian Privatization Agency. This entity assumed responsibility for all privatization procedures, previously disbursed among various ministries. In early 1995, the first wave of enterprises were offered for "mass" or "public" privatization, i.e., auctioning of shares for privatization certificates (vouchers). This event kicked-off full operation of the Riga Stock Exchange. In 1995 state enterprises were advertised internationally three times for privatization by tender. To date there has been little foreign interest in these companies. However, the last offering featured most of the largest enterprises which are more likely to be of international interest. The government is also in the process of privatizing one of the largest money earning state enterprises, Latvian Shipping Agency, and the state gas utility.

In July 1995, the Riga Stock Exchange began operations. Owned by the major Latvian banks and investment funds, the Exchange operates according to the continental European market. The number of stocks trading on the exchange is gradually increasing as the public privatization process moves forward.

4. Debt Management Policies

As of September 30, 1995, the Government of Latvia's external debt was 414.4 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 until the summer of 1995. The above mentioned budgetary problems resulted in the suspension of the standby agreement pending the conclusion of a new letter of intent. (On September 30, 1995, Latvia's official foreign exchange and gold reserves were valued at 588.8 million dollars. The ratio of debt service to exports is a very modest 1.60%.)

5. Significant Barriers to U.S. Exports

The main barriers to U.S. exports to Latvia are structural. While considerably improved, Latvia's business, banking and legal infrastructures are not yet up to Western standards. However, banking procedures were tightened considerably in 1995 following the collapse of the largest commercial bank. 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. The Cabinet of Ministers must approve acquisition of controlling shares in a Latvian enterprise with assets exceeding one million dollars. 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, sugar, and alcohol 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 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 provides modest subsidies for export of butter and cheese.

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 the Paris Convention from September 1993. Latvia joined the Madrid, Nice and Budapest Conventions in late 1994 and early 1995 and the Berne Convention in May 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. Union membership, which had been about 50% of the work force in 1993, continued to fall as workers left soviet-era unions that include management or are laid off as soviet-style factories fail. Leaders of the two largest trade union confederations, the Confederation of Free Trade Unions and the Latvian Trade Unions' Alliance of Employees were among candidates of a "Labor and Justice" coalition which attained less than the minimal 5% of the vote in the 1995 parliamentary elections. Unions are free to affiliate internationally and are developing contacts with European labor unions and international labor union organizations. In general, the trade union movement is undeveloped and still in the transition from the socialist to the free market model. The law does not limit the right to strike, but no major strikes were actually held in 1994. Although many state-owned factories are on the verge of bankruptcy and seriously behind in wage payments, workers fear dismissal if they strike. While the law bans such dismissals, the government's ability to enforce these laws is weak.

b. *The Right to Organize and Bargain Collectively.*—Large unions have the right to bargain collectively and are largely free of government interference in their negotiations with employers. The law prohibits discrimination against union members and organizers.

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. The law restricts

employment of those under 18, such as by banning night shift or overtime work. State authorities are lax in their enforcement of child labor and school attendance laws.

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. This labor code is in the process of being amended. Some provisions may become more favorable for employees, including an increase in paid vacation. In October 1995, 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 and transportation. 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—1994

[Millions of U.S. dollars]

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

LITHUANIA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (percent)	−17.1	1.0	2.4
GDP (at current prices)[2]	2,725	4,245.1	5,617.3
GDP by sectors:			
Agriculture	305.3	308.9	145.5
Energy and Gas	158	113.2	84.4
Manufacturing	733	981.2	660.7
Construction	215.2	375.7	185.9
Rents	N/A	N/A	N/A
Financial Services	98.1	771.7	N/A
Other Services	449.6	867.2	544.7
Government, Health and Education	262.2	472.9	N/A
Net Exports of Goods and Services	1,242.2	2,019.2	1,065.2
Real per capita GDP ('85 bps)	684	1,147	684

Key Economic Indicators—Continued

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

	1993	1994	1995
Labor Force (thousands)	1,859.3	1,740.7	2,105
Unemployment Rate (percent)	3.6	3.2	3.6
Money and Prices (annual percentage growth):			
Money supply (M2)[3]	680.2	948.9	1,169.6
Base Interest Rate[4]	95	95	33
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	270	70	22.8
Consumer Price Index	72.2	123.8	162.7
Exchange Rate (Lt/US$): Official	4.50	4.0	4.0
Balance of Payments and Trade:			
Total Exports FOB	1,334	2,019.2	1,065.2
Export to U.S.	4.8	12.9	N/A
Total Imports CIF[5]	1,402.2	2,338.7	1,185.7
Imports from U.S.	26.4	2,646.6	N/A
Aid from U.S.	25	20	20
Aid from Other Countries	216.9	N/A	N/A
Debt Service Payments (paid)	N/A	30.63	N/A
Gold and Forex Reserves	253	309	495
Trade Balance	−68.2	−319.5	−120.5
Balance with U.S.	−21.6	−40.88	N/A

[1] 1995 figures are all estimates based on available monthly data in September 1995.
[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 embarked on a series of price liberalizations, and most price controls have been abolished. Most businesses have been privatized and private citizens are allowed to own land. The government is eager to encourage foreign investments and open new trade ties with the West. In 1995 trade with Russia and other former Soviet Union republics fell from 78% in 1990 to 40%. Trade with the West increased from 15.3% to 60% respectively. Lithuania is seeking to further liberalize its foreign investment laws. The June 1995 foreign investment law has opened the energy and telecommunications sectors to foreign investment. 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. The increase in prices for consumable goods and services fell from 35% in 1994 to 29.3% in 1995. However, Lithuania still lags behind its Baltic neighbors—Latvia and Estonia. In September 1995, Lithuania had the lowest minimal and average monthly incomes and pensions, the highest level of employment, and the highest level of annual inflation.

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 Policies

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 manufac-

tured 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 tax for up to three years. Profit taxes of joint ventures are determined by the amount of foreign investment in the authorized capital and its 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 investments. 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. However, as a condition for EU membership, Lithuania is required to lift the constitutional ban on foreign property ownership. The Lithuanian Parliament is expected to amend the Constitution to meet EU standards by 1996.

4. Debt Management Policies

Lithuania has acknowledged only that portion of the Soviet debt incurred by Lithuanian entities for uses in Lithuania. Negotiations on this matter are in progress. Lithuania has 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. Lithuania's budget deficit for 1995 is about two percent of the planned GDP, and is well within IMF targets.

5. Significant Barriers to U.S. Exports

There are no direct barriers to U.S. exports. However, U.S. exports are hindered by a weak economy, rigid bureaucratic system, and the absence of a solid infrastructure for trade, such as telecommunications and banking facilities. U.S. exporters are also hampered by the lack of export 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 June 1995 Foreign Investment law determines the areas of economic activity where foreign investment is prohibited or limited. Foreign investment is allowed in all areas except defense, security and the manufacture of narcotics.

6. Export Subsidies Policies

The government has exercised controls on exports of certain scarce commodities. There are no export subsidies.

7. Protection of Intellectual Property

Laws for the protection of intellectual property are adequate, but enforcement mechanisms and implementing regulations are poorly developed. Lithuanian policy has been to observe international standards and to consider subscribing to international conventions beyond those accepted by the independent Lithuanian governments before World War II. Lithuania joined the World Intellectual Property Organization (WIPO) in 1990 and plans to sign the Paris Convention for the protection of industrial property. In April 1994, Lithuania signed an agreement with the U.S. pledging to protect U.S. intellectual property. The Lithuanian Parliament is considering laws to address 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 for 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. Investment.*—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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	1,427	1,313	N/A
GDP Growth (percent)	−16	−7	N/A
GDP (at current prices)[2]	N/A	N/A	N/A
GDP by Sector (percent):			
Agriculture/Fisheries		23.9	
Mining and Industry		37.2	
Trade		17.7	
Construction		6.6	
Tourism/Services		5.9	
Transport/Communications		4.3	
Public Services		1.6	

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Other		2.8	
Net Exports of Goods and services		N/A	
Real per capita GDP (1985 US$)	767	706	N/A
Labor Force (000s)[3]	632	619	571
Unemployment Rate (percent)[3]	27.66	30	32
Money and Prices (annual percentage growth):			
Money Supply (M2, million denars)	28,053	33,015	N/A
Base Interest Rate		N/A	
Personal Saving Rate		N/A	
Retail Inflation	349.8	121.8	[4]9.0
Consumer Price Index	462.0	228.3	N/A
Exchange Rate (denars/US$—annual average):			
Official	23.60	43.20	39.20
Parallel	N/A	45.00	39.30
Balance of Payments and Trade:			
Total Exports FOB[5]	1,055.30	1,086.30	916.20
Exports to U.S.	61.70	39.50	29.40
Total Imports CIF[5]	1,199.40	1,484.10	1,187.40
Imports from U.S.	26.40	49.50	40.90
Aid from U.S. (fiscal years)	10.00	20.90	13.40
Aid from Other Countries		N/A	
External Public Debt	702.90	737.10	N/A
Trade Balance	−144.1	−397.8	−271.2
Trade Balance with U.S.	35.3	−10.0	−11.5

[1] 1995 figures are embassy estimates based on available data.
[3] Government statistics are in transition from Gross Social Product accounting to GDP. Real GDP figures are estimated and subject to later revision. Full nominal GDP figures for 1993–95 are not currently available.
[3] Official labor force figures include only employed and registered unemployed. Many workers are not registered or have shifted to the gray economy. Actual unemployment may therefore be lower—in the range of 20 percent.
[4] This is an official government figure. Independent confirmation of this figure does not exist at this time.
[5] Merchandise trade.

1. General Policy Framework

The former Yugoslav Republic of Macedonia (FYROM) broke away peacefully from the SFR Yugoslavia in November 1991. The new government quickly adopted a program of political and economic reform aimed at creating a western-style democracy with a liberal market economy. The country has made considerable advances towards these objectives despite very difficult economic and political circumstances.

From the start FYROM had to cope with a difficult economic transformation. The breakup of the former Yugoslavia, the UN sanctions on Serbia, and a Greek embargo imposed on FYROM in a dispute over the country's name deprived it of over 60 percent of its former market and suppliers. Additional economic dislocation was generated by the reforms, and by the general slowdown in trade with eastern European countries. FYROM was also deprived of needed European Union technical and financial assistance because of its dispute with Greece.

In 1994 FYROM began to move forward with privatization and banking reform. A severe financial austerity program stabilized the Macedonian denar and brought inflation down to low double digit numbers. In early 1995 the government began restructuring and privatizing its largest socially owned industries. New foreign investment, revenue collection, and banking laws were also introduced to try and stimulate new economic growth.

With the lifting of the Greek embargo in October 1995 and the suspension of UN sanctions on Serbia in late November 1995, there are now stronger prospects for an economic upturn in the first quarter of 1996.

2. Exchange Rate Policies

Beginning in 1994, the FYROM chose a managed float of the denar against the Deutsche Mark. In addition, as a result of the very restrictive monetary policy of the National Bank, the Macedonian denar appreciated strongly against the U.S. dol-

lar throughout 1994 and 1995. The exchange rate dropped from 47.51 denar/dollar in February 1994 to 37.01 denar/dollar in November 1995. This stable and restrictive monetary policy eliminated the parallel market for foreign currency.

3. Structural Policies

The FYROM has made considerable progress in structural reform. The country is in the process of privatizing its so-called socially owned capital, rehabilitating its banks, and restructuring its 25 largest loss-making companies.

The underlying philosophy of the Macedonian privatization process is that it is not intended to be an end in itself but rather part of the process towards, and part of the mechanism for, an increasingly efficient economy. Emanating from this central rationale are several consequent benefits:

i) a more stable evolution of the economy;
ii) the development of a capital market;
iii) the attraction of foreign capital; and
iv) enhanced credibility for the total reform program.

It is expected that a total of 1,200 enterprises will be privatized, of which 790 will be privatized in 1995. Most are defined as small (usually meaning fewer than 50 employees), but there are also approximately 300 medium-sized (fewer than 250 employees) and 115 large (more than 250) enterprises.

The portion of a company's share capital which is community-owned is known in the FYROM as social capital. In theory, it is owned by the company's employees, although they have been severely restricted as to what they can do with it. Its nontransferability effectively rendered it valueless to any individual. It is this social capital which is being sold in the privatization process.

There has so far been little success in attracting foreign investors. Two medium-size companies were bought by long-standing foreign partners—a textile company and a wood-processing firm. Other foreign buyers have so far been scarce. This has had the effect of lowering the price companies can fetch in the market and helping to increase worker perceptions of unfairness. Hopes that foreigners would buy into the Macedonian tobacco industry have so far been unfulfilled.

On the whole, the privatization process is well-planned and is progressing as well as can be expected under the pressure of two trade embargoes until mid-October 1995, and the general perception around the world that former Yugoslav republics are a dangerous place to invest. As in most former socialist countries, the former elite is taking the reigns as the new capitalists running the economy. Lack of a voucher system to give the workers a guaranteed stake in the privatized economy is one of the chief complaints of the trade unions and political opposition. The government took a conscious decision, however, that it needed all the revenue it could get to provide support for laid-off workers and other needs.

The perception of unfairness may well increase the risk of social unrest here. On the whole, however, the government has no choice but to forge ahead. The old, socially-owned economy could not continue to function much longer. Recent credits granted by international financial institutions and the Italian government should help cushion the shock.

Stopanska Bank branches in Ohrid, Prilep, Kumanovo, Strumica, and Bitola have become independent banks, no longer part of the Stopanska Bank family. The bank branches are being split off as part of the requirements of the IMF structural adjustment credit. Stopanska Bank, which has about 60 percent of deposits, and bad debt as well, must be reduced in size until it is no more than 1.8 times the size of the next largest bank. The new branches will provide all domestic and international banking functions.

The law on loss-making companies was passed in January 1995; its basic aim is to protect and advance the productive capacities of firms in the reconstruction process, to create efficient companies, and to transform the less functional parts of the companies. The passage of the law was a precondition for a World Bank loan and for support from the IMF for the transition program. In addition, the law provides that claims by banks, public enterprises, and the state against these companies (other than obligations towards the pension funds) be converted into shares in the companies. The companies use money from the budget to cover their lack of funds during the transformation. The funds are supposed to be employed only for profitable deals which have been planned as part the transformation programs of these enterprises. Those companies most successful in cutting costs will have priority.

The program for restructuring the 25 largest loss makers resulted in at least 8,500 lay-offs in 1995. These workers are eligible for monetary compensation but by no means have all of them received what they are owed.

An individual income tax was introduced effective January 1, 1994. All income is taxed on a differential scale that ranges from a minimum of 23 to a maximum of 35 per cent of gross income.

4. Debt Management Policies

According to the National Bank of Macedonia, the government acknowledges $737.1 million in total principal debt as well as $428 million in accumulated interest to various international financial organizations and creditors. The terms and repayment plans for the various lending agreements vary. Total debt owed to the major international financial organizations is as follows:

Commercial Banks: $272.5 million
Paris Club: $181 million
International financial institutions: $260.2 million
Others: $22.7 million

During 1995, FYROM had to repay $24 million to the World Bank, $14 million to Eurofima, $3 million to the IMF, $14 million to the European Fund for Reintegration, $6 million to the European Bank for Reconstruction and Development, and $0.3 million dollars to the IDA.

5. Significant Barriers to U.S. Exports

Apart from the political heritage of the region, there are no significant obstacles to US exports. Only a few of products are subject to a quota regime and the quotas are generally seasonal. However, the tariff schedule is complicated and rates vary widely. The average duty is approximately 11 percent, but some are as high as 30 percent.

6. Export Subsidies Policies

There are no export subsidies.

7. Protection of U.S. Intellectual Property

Intellectual property is not protected effectively in the FYROM. There is widespread piracy of computer software and videos. Private TV stations broadcast pirated videos without hiding the fact that the broadcast is pirated. However, some progress was made in September 1995 when a draft law was prepared by the Ministry of Culture and submitted for revision and comment to the World Intellectual Property Organization (WIPO), the Council of Europe, and as well to all diplomatic representatives to the FYROM.

8. Worker Rights

a. *The Right of Association.*—The Macedonian Constitution provides that citizens, except for military and police personnel and civil servants, have the right to form and join trade unions.

The Council of Trade Unions of Macedonia (SSM) is the successor organization to the former Communist Labor Federation. It maintains the assets of the old unions and is the government's main negotiating partner on labor issues. While its officers may tend to oppose strikes because of the legacy of the past, they appear to be genuinely independent of the government. An association of independent and autonomous unions was formed in 1992, and independent unions have been able to organize without harassment by the government or SSM.

The Constitution provides for the right to strike, and many brief strikes occurred in 1994, mainly by employees of state-owned companies who were receiving their pay months late. Often, the companies, cut off by the Greek embargo from many foreign markets, simply did not have the funds to pay their workers. Trade unions are free to affiliate internationally.

b. *The Right to Organize and Bargain Collectively.*—The Constitution implicitly recognizes employees' right to bargain collectively, but collective bargaining is still in its infancy. Parliament has not adopted legislation in this area. No law prohibits anti-union discrimination, but no instances were reported in 1994 and 1995. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The Ministries of Labor and Internal Affairs effectively enforce legal prohibitions against forced labor.

d. *Minimum Age for Employment of Children.*—The constitutional minimum age for employment of children is 15. Younger children, however, are often seen peddling cigarettes or other small items, or working in family-owned shops or on family farms. Children are permitted to work 42-hour weeks but may not legally work at night. Education is compulsory through the eighth grade. The Ministries of Labor and Internal Affairs are responsible for enforcing laws regulating the employment of children.

e. *Acceptable Conditions of Work.*—The average monthly wage in October 1995 was $240 (8,900 denars). The minimum monthly wage is, by law, two-thirds of the average monthly wage, or about $160. The economic crisis meant that few workers could support a family on their wages alone.

The official workweek is 42 hours, with a minimum 24-hour rest period and generous vacation and sick leave benefits.

The Constitution calls for safe working conditions, temporary disability compensation, and leave benefits. Laws and regulations on worker safety exist, but credible reports suggest that the Ministry of Labor and Social Work, which is responsible for enforcing regulations pertaining to working conditions, does not enforce them strictly.

f. *Rights in Sectors With U.S. Investment.*—Conditions do not differ significantly in foreign-invested sectors from those in the economy in general.

Data on U.S. investment in the FYROM is not available.

MOLDOVA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Gross GDP indicator (1990=100)	57.9	39.8	38.6
Real GDP Growth (percent)	−1.2	−31.2	−3.0
GDP (at current prices)	488.2	1,276.2	1,781.5
GDP by Sector	N/A	N/A	N/A
Real Per Capita GDP (US$)	350	329	319
Labor Force (thousands)	1,688	1,681	1,660
Unemployment Rate (percent)[1]	0.7	1.1	N/A
Money and Prices:			
Money Supply (M2) (lei millions)	348.2	675.9	1,092.2
Base Interest Rate (percent)	N/A	N/A	N/A
Annual Inflation Rate	837	104	23.8
Consumer Price Index (Dec 1991=1)	1,255.5	2,568.1	3,179.3
Exchange Rate (MLD/US$—annual average):			
Auction Rate	3.64	4.04	4.53
Balance of Payments and Trade:			
Total Exports	393	618	636
Exports to U.S.	0.9	1.8	[2]5.4
Total Imports	528	672	648
Imports from U.S.	14.2	19.2	[2]20.0
Aid from U.S.	3.5	13.9	22.1
Aid from Other Countries	7.9	12.7	13.6
External Public Debt	N/A	N/A	658.6
Debt Service Payments (paid)	N/A	N/A	68.7
Gold and Foreign Exchange Reserves[3]	N/A	N/A	N/A
Trade Balance	−135.1	−54.6	−12.3
Trade Balance with U.S.	−13.3	−17.4	−14.6

[1] Official unemployment understates actual unemployment and underemployment.
[2] Figures are estimated based on available ten-month date.
[3] Moldova does not have gold reserves. Foreign exchange reserves are sufficient to cover import expenses for four months.

Note: Figures provided by the Ministry of Economy of Moldova. 1995 figures are estimated based on available eleven-month data.

1. General Policy Framework

Moldova is a small landlocked country in the extreme southwest of the former Soviet Union (FSU). The economic life of Moldova was highly integrated into that of the Soviet Union, and the disintegration of the FSU has seriously affected Moldova's economy. Moldova has a comparative advantage in agriculture, the most important sector of the economy. Moldovan industry was organized to supply markets in the FSU, with production concentrated in consumer goods and defense related products.

The country is attempting to reorient its trade more toward the West, but its principal markets remain in the FSU.

The country has embarked on a policy of economic reform stressing privatization, the creation of a free market economy, liberalization of foreign economic relations, and the creation of conditions favorable to foreign and domestic private investment. In 1993 the government began a policy of trade liberalization. The majority of restrictions on exports and imports were abolished in 1994, and customs duties were reduced by 50 percent in 1995. Moldova has signed several agreements with the United States, including a trade agreement (1992), an investment agreement (1993), and an OPIC agreement (1992), and it is eligible for some Exim Bank cover. Trade between Moldova and United States grew from $15.7 million in 1993 to $21 million in 1994. In the first half of 1995, trade with the United States totalled $6 million.

The government plans a budget of $523.2 million in 1996, with a budget deficit of about 3.4 percent. The budget deficit for 1995 is 3.5 percent. The government is currently in the process of reviewing its budget and tax legislation and is attempting to stem loses from widespread tax evasion. As a general strategy, increased emphasis is being put on indirect taxes such as VAT and excise taxes. A new fiscal code is also being discussed. In 1995 the Moldovan government plans to cover the budget deficit by relying on sale of securities, national bank profits and international borrowing.

The National Bank of Moldova (NBM) has the responsibility for monetary policy. It uses various tools to execute monetary policy, including credit auctions in which local banks participate, reserve requirements, securities transactions, and currency exchange policy. In 1995 the total amount of NBM credits to the Moldovan government was $40.6 million ($12.1 million to cover the budget deficit, $24.9 million for state certificates). The bank plans to begin free market operations using treasury bonds to conduct monetary policy and to phase out the use of credit auctions as a monetary tool in 1996.

2. Exchange Rate Policies

In 1993 Moldova discontinued the policy of multiple exchange rates. The leu exchange rate is flexible and is established by transactions on the Moldovan interbank currency market which operates daily under the supervision of the NBM. Currency transactions are also permitted outside this market. In July 1995 Moldova abolished current account transactions restrictions. As a result of the liberalized currency regime, leu convertibility is ensured for current international transactions, and obligatory foreign currency sales to the government have been abolished. Exporters are permitted to hold export income on currency accounts, and the right of foreign investors to repatriate investment incomes is ensured.

3. Structural Policies

Moldova officially liberalized the prices of most consumer goods in January 1992, though some prices remain subject to regulations. Several types of bread are subsidized for pensioners, and prices for milk products depend on a certain profitability ratio set by the government. Imported goods are exempt from regulations at the wholesale level, but in some cases are subject to margin controls at the retail level.

Tax policies: The major taxes in Moldova include an enterprise income tax (30 percent); a value added tax (20 percent); an excise tax on wine and tobacco production, natural gas, and luxury items (from 10 to 80 percent); taxes on agricultural enterprises and private farms (depending on area and quality of land); individual income tax (from 10 to 50 percent); and import tariffs. In 1992 Moldova started a two stage tax reform. During the first stage, the government adopted several pieces of legislation regulating the taxation of legal and natural persons. During the second stage, the parliament passed legislation on a value added tax, excise taxes and local taxes. The parliament also adopted legislation on the taxation of banks and other credit agencies that foresees the creation of risk funds. Monies from these funds will cover bank credit losses. The parliament also introduced taxes on natural resources, both for revenue purposes and to regulate their exploitation. A law in support of small enterprises was adopted for the purpose of creating a favorable climate for small business development. This law grants certain tax concessions to small business.

4. Debt Management Policies

Moldova is a member of several international financial organizations, including the International Monetary Fund, the World Bank, and the European Bank for Reconstruction and Development (EBRD).

Moldova initiated the use of foreign credits in 1992. At the end of 1994 the total amount of government guaranteed public credits was $490 million, including $61 million of IMF credits. This amount does not include loans of $259.5 million granted

by the Russian "Gazprom" company to "Moldovagaz" in mid-1995 for energy resources. In 1995 a new credit contracting system and new regulations were established for government guaranteed debt. as part of this, the National Bank created a new external credits registration system, which also records private, non-guaranteed credits, and established a credit committee to coordinate external credits.

In 1995 Moldova benefited from a variety of foreign economic assistance. A $30 million structural adjustment loan guaranteed by the World Bank supported economic reform and covered the budget deficit. Moldova also signed a $30 million agreement with the World Bank through which importers can provide suppliers with guarantees against political risk. The EBRD offered a "power efficiency" loan of $29 million, of which $24.7 million is insured by EBRD, to support energy sector rehabilitation. Two credits totalling $24.2 million were also granted by the EBRD to the Victoriabank and Agroindbank for the purpose of small and medium enterprises crediting. A new $58.5 million stand-by agreement for support of government economic programs was signed with the IMF in March.

5. Significant Barriers to U.S. Exports

Import barriers: Other than customs tariffs, which are being lowered, Moldova imposes no significant barriers to U.S. exports. However, in July 1994 the government began requiring certification of imported products by the Moldovan Department for Standards, Metrology and Technical Oversight (DSMTO) or by SGS International of Geneva. The purpose of the certificate is to ensure the good quality of imported goods. DSMTO is in charge of establishing and accrediting bodies that certify imported products.

Other barriers in Moldova to foreign trade and investments involve the improving, but still somewhat underdeveloped banking, insurance, legal, and travel services. Moldova has applied for WTO membership.

Investment barriers: Existing legislation does not restrict foreign capital participation in Moldovan enterprises with the exception of certain state-controlled enterprises. Foreign equity participation in privatization of some government owned enterprises is now possible. Restrictions on the ownership of land are no longer absolute, and land under privatized enterprises can now be owned by the enterprise owners.

Customs procedures: There are two taxes levied on imports and exports in addition to import duties: a 0.15 percent tax on the total value of goods that benefits the Customs Control Department, and a 0.1 percent tax on total value that goes to the state budget.

6. Export Subsidies Policies

Moldova does not practice export subsidization.

7. Protection of U.S. Intellectual Property

The USG has concluded trade agreements containing commitments to protect intellectual property (IP) with all the republics making up the Newly Independent States of the former Soviet Union. The agreement came into force in 1992.

The Berne Convention for the Protection of Literary and Artistic Works entered into force in Moldova on November 2, 1995. In 1995, Parliament enacted a law protecting intellectual and industrial property, but enforcement of the law has been ineffective. At this time, piracy of copyright materials is widespread (cable television, audio and video cassettes, computer software, and books). However, the overall volume of piracy and the losses experienced by U.S. firms is still relatively limited.

8. Worker Rights

a. *The Right of Association.*—Moldovan laws passed in 1989 and 1991, which give citizens the right to form all kinds of social associations, provide a legal basis for the formation of independent unions.

b. *The Right to Organize and Bargain Collectively.*—The new constitution adopted in 1994 declares that any employee may found a union or join a union. Nongovernment workers (except those in essential services) have the right to strike. In 1995 teachers went on strike and there were several other labor actions.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by the constitution. No cases of forced labor have been reported.

d. *Minimum Age for Employment of Children.*—The minimum age for employment under unrestricted conditions is 18. Employment of those aged 16–18 is permitted under special conditions, including work only during days. Child labor is not used in industry, though children living on farms do sometimes assist in the agricultural sector.

e. *Acceptable Conditions of Work.*—The new constitution sets the maximum workweek at 40 hours, and the labor code provides 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.

f. *Rights in Sectors With U.S. Investment.*—There is little U.S. investment in Moldova. Workers for foreign firms are generally paid higher wages and more regularly than other sectors.

Data on U.S. investment in Moldova is not available.

THE NETHERLANDS

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)[2]	69,6322	76,341	283,802
Real GDP Growth Rate (percent)	0.2	2.7	3.0
GDP (current prices)[2]	318,132	334,297	349,972
GDP by Sector[3]:			
Agriculture	12,308	12,769	12,000
Energy and Water	5,016	5,104	6,000
Manufacturing	57,379	61,113	65,000
Construction	13,852	14,363	15,000
Rents	27,148	27,846	29,000
Financial Services	12,516	12,406	13,000
Other Services	148,692	151,901	154,000
Government, Health and Education	31,159	31,505	32,000
Net Exports of Goods and Services	18,132	17,747	19,286
Real Per Capita GDP	20,876	21,780	22,652
Size of Labor Force (000's)	6,247	6,321	6,399
Unemployment Rate (percent)	7.7	8.7	8.4
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.5	−1.5	−1.0
Base Interest Rate[4]	6.4	6.9	7.0
Personal Savings Rate	8.1	7.9	8.5
Retail Inflation	1.3	1.0	0.5
Wholesale Inflation	−1.9	0.8	0.3
Consumer Price Index	109.2	112.2	114.5
Exchange Rate(guilders/US$)	1.86	1.82	1.60
Balance of Payments and Trade:			
Total Exports (FOB)[5]	129,066	139,275	145,852
Exports to U.S.	5,451	6,007	6,000
Total Imports (CIF)[5]	120,406	131,580	133,461
Imports from U.S.	12,839	13,582	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)	15,275	15,604	15,385
Gold and Foreign Exchange Reserves (end of period)	41,338	40,815	39,560
Trade Balance[5]	8,659	10,440	12,390
Balance with U.S.	−7,388	−7,575	−8,000

[1]Estimates based on available monthly data in November 1995.
[2]GDP at market prices.
[3]GDP at factor costs.
[4]Figures are actual, average annual interest rate.
[5]Merchandise Trade.
[6]All dollar figures have been converted to the average exchange rate of $1 to 1.82 Guilders for 1994.

Sources: Central Bureau of Statistics (CBS), NetherlandsCentral 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 Europe's main airports (Amsterdam-Schiphol), and an excellent road, rail, and inland waterway 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.

A three-party, left-right coalition government has been in power since August 1994. After four years of slow growth—GDP grew on average 1.7 percent—the Dutch economy is recovering. Driven by increased exports and domestic investment, GDP is forecast to grow by three percent in 1995—the highest rate since 1990—and then slow to 2.5 percent in 1996. Unemployment is expected to remain at around eight percent. Inflation has been low and is projected to be two percent in 1995 and 2.25 percent in 1996. The Netherlands' current account is projected to show a surplus equal to nearly four percent of GDP in 1995 and 1996.

In the 1996 budget, the government clearly committed itself to putting public finances in order and meeting the criteria for European Economic and Monetary Union (EMU) set out in the Maastricht Treaty. Dutch fiscal policy aims at further reductions in both public spending and taxation. The budget deficit is targeted to fall from its current 3.7 percent of GDP to 2.75 percent of GDP in 1996, slightly below the three percent EMU criterion. The stock of public debt will fall for the first time, from 78.7 percent of GDP at the end of 1995 to 78.4 percent in 1996; this is still well above the 60 percent EMU criterion.

The deficit is largely funded by government bonds. Since 1 January 1994, financing has also been covered by issuing Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing from 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 influence short-term rates.

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, R&D, 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 above 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 investment incentive currently available from the central government, 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 R&D by Dutch firms, the government set up "Senter", an independent agency to encourage and financially assist firms in innovative R&D projects in targeted fields. Senter's programs are open to firms without regard to nationality of ownership that have Dutch-based R&D 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 800 million guilder (over $440 million) annual budget. A similar agency, "NOVEM", has a 300 million guilder ($165 million) budget for energy and environment-related programs.

In another effort to attract investment, the government established an office in 1993 to give binding tax rulings to foreign companies in advance of investment. While normal taxes are not relaxed, companies before making an investment can clarify, often favorably, tax situations that may be open to interpretation.

To finance restructuring projects by medium and large Dutch enterprises,the government set up a 900 million guilder (about $495 million) industrial fund. The money is furnished by the government, commercial banks, insurance companies, pension funds, and the National Investment Bank (NIB). 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 so far has been used by just two large enterprises. The lack of interest in the NIB borrowing facility may be attributed to the currently strong financial position of the Dutch business sector.

4. Debt Management Policies

With a current account surplus of nearly four percent of GDP in 1995 and no foreign currency denominated external debt (all public debt is denominated in guilders), the Netherlands is a major creditor nation. Nonetheless, since the early 1980s, the gross debt of the public sector (EMU criterion) has grown sharply to 79.1 percent of GDP in 1994. If current policies are followed most observers predict a small decrease in the stock of debt as a percentage of GDP in the next four years. Debt servicing and rollover have risen to near nine 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 Dutch support conscientious implementation by the EU of the Uruguay Round Agreements. The Netherlands is the ninth largest U.S. export market, as well as the market with which the United States has its largest bilateral trade surplus: $7.6 billion in 1994. That surplus was running at an annual rate of $10 billion for the first six months of 1995. Total U.S. exports to the Netherlands in 1994 were up 6 percent over 1993. U.S. exports to the Netherlands in the first half of 1995 grew by 23 percent from the same period in 1994, which is likely to make 1995 another banner year. In 1994, imports from the U.S. accounted for nearly eight 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 U.S. in 1994 fell slightly to $70.6 billion from $72.2 billion in 1993. The United States is the largest investor in the Netherlands; U.S. direct investment rose 15 percent to $24.1 billion in 1994.

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 barriers are generally driven by the Common 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 imports of U.S. peanuts. Tedious administrative procedures, on the other hand, hamper the import of U.S. agricultural products, e.g., Genetically Modified Organisms (GMOs).

Offsets for defense sector contracts: The Defense Ministry requires all foreign contractors to provide at least 100 percent offset/compensation for defense procurement over five million Dutch guilders (about $2.7 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce com-

ponents or sub-systems of the weapons systems it is buying. A penalty system for non-compliance with offset obligations is currently under consideration. Offsets were an important factor in the tough competition in 1995 to sell combat helicopters to the Dutch, a contest won by a U.S. company.

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 are 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 response to EU requirements to curtail cartels, the government plans to amend the Economic Competition Act in 1996. Current legislation allows the formation of cartels, provided they are not detrimental to the public interest; the new law will ban cartelization unless it promotes the public interest. 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 to the Netherlands.

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. The EU utilities directive may actually have a positive effect by forcing more public notification and ending the virtual monopoly of two Dutch companies in public utility construction for local authorities. In any case, the Embassy had no complaints from U.S. firms in 1994 probably because U.S. firms operate primarily in the export oriented sector of the economy; at the central government level of procurement, they appear to have experienced little discrimination in public procurement in 1994.

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 $5.5 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. In 1994, Deutsche Aerospace (DASA) purchased a majority interest in Fokker, which the Dutch government (which had owned 31.8 Percent of the company) hoped would allow it to reduce support of Fokker to a minimum. However, DASA is seeking more government support to finance drastic restructuring measures; these measures seem unavoidable if Fokker is to survive as an aircraft manufacturer.

There are some subsidies for shipping. Under strict conditions, Dutch ship owners ordering new vessels or buying existing vessels not older than five years may be eligible for a premium of 10 percent of the contract price distributed over five years. The present guideline is the seventh EU directive which allows a maximum aid level of nine percent for shipbuilding after consideration of tax allowances. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget has recently been doubled to 120 million guilders ($66 million)in 1995. In conformity with the OECD understanding, the government also grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a

vessel's cost with a maximum repayment period of 8.5 years. This subsidy is only available when it will be "matching" similar offers by non-EU shipyards. The budget for subsidies to shipbuilders has been doubled to 80 million guilders ($44 million) in 1995. 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, with the exception of the enforcement of anti-piracy laws (see below). It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention for the Protection of Industrial Property, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if a PCT application is used.

The Netherlands is a signatory to the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters. The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and video tapes, and textbooks. The Dutch Government has recognized the problems in protecting intellectual property. Legislation was enacted in early 1994 to include computer software explicitly 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, but union-negotiated collective bargaining agreements are usually extended to cover about three quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting workers' rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress.

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 most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children.*—Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people who have finished formal schooling, the Netherlands has a reduced minimum wage for employees between ages 16 and 23.

e. *Acceptable Conditions of Work.*—Dutch law and practice adequately protect the safety and health of workers. A forty hour maximum work week is set by law, but collective bargaining agreements generally establish the work week. The average workweek for adults working full time is 38 hours, but collective bargaining negotiations are heading towards an eventual 36 hour work week. The legally-mandated minimum wage is subject to semi-annual living cost adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors With U.S. Investment.*—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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,484
Total Manufacturing		8,908
Food & Kindred Products	1,096	
Chemicals and Allied Products	3,870	
Metals, Primary & Fabricated	550	
Machinery, except Electrical	813	
Electric & Electronic Equipment	587	
Transportation Equipment	95	
Other Manufacturing	1,896	
Wholesale Trade		3,494
Banking		149
Finance/Insurance/Real Estate		7,959
Services		1,291
Other Industries		866
TOTAL ALL INDUSTRIES		24,150

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

NORWAY

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1992 prices)	112,917	119,353	124,605
Real GDP Growth (percent)	2.1	5.7	4.4
GDP (at current prices)	115,847	123,276	147,476
GDP by Sector (at current prices):			
Agric., Forestry, & Fishing	2,942	3,035	3,500
Energy & Shipping	21,892	22,182	26,900
Manufacturing & Mining	13,194	14,422	16,960
Construction	3,693	4,143	5,100
Rents	8,672	8,812	10,350
Financial Services	5,270	5,665	6,660
Other Services	41,427	45,311	55,056
Government, Health, & Educ.	18,757	19,706	22,950
Net Exports of Goods and Services	7,524	7,409	9,444
Real Per Capita GDP (92 $)	26,138	27,501	28,579
Labor Force (000s)	2,131	2,151	2,190
Unemployment Rate (percent)	6.0	5.4	5.0
Money & Prices:			
Money Supply (M2) (percent change)	0.5	6.6	5.0
Base Interest Rate[2] (percent)	6.8	6.8	6.5
Personal Savings Rate (percent)	8.2	6.6	5.0
Retail Inflation (percent change)	2.0	1.8	2.5
Wholesale Inflation (pct change)	−0.1	1.4	1.5
Consumer Price Index (1979=100)	250.3	253.8	260.1
Exchange Rate (NOK/US$)	7.09	7.06	6.30

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Balance of Payments and Trade:			
Total Exports FOB	32,205	34,784	43,317
Exports to U.S.[2]	1,901	2,244	2,523
Total Imports CIF	25,340	28,024	34,127
Imports from U.S.[3]	1,945	2,004	2,206
Aid from U.S.	0	0	0
Aid from other Countries	0	0	0
External Public Debt	9,935	9,617	8,000
Debt Service Payments (Paid)[4]	447	439	468
Gold and Foreign Exchange Reserves	21,813	20,045	23,000
Merch. Trade Balance	6,865	6,760	9,190
Balance With U.S.[3]	−44	240	317

[1] 1995 Figures are all Estimates Based on Monthly Data in November 1995.
[2] Central Bank overnight lending rate; Not annual percentage growth.
[3] Norwegian foreign trade statistics. Exports exclude Norwegian oil shipped to the U.S. from UK terminals.
[4] Principal payments.

1. General Policy Framework

Oil, gas, and hydroelectric energy will continue to dominate Norway's resource base and drive the country's economic growth for at least the next two decades. Norwegian territorial waters contain 20 years of proven oil reserves and a 115-year supply of natural gas, with new discoveries continually being made. Energy-intensive industries, such as metal processing and fertilizer production, will remain prominent on the mainland due to the availability of abundant hydropower.

There are some constraints which limit Norway's economic flexibility and ability to maintain international competitiveness. The labor force is limited by Norway's small 4.3 million population and a restrictive immigration policy. Norway is also a high cost country due to oil revenue, a highly centralized collective bargaining system, and the government's long tradition of generous social welfare benefits. Several inefficient sectors, including agriculture, survive largely through subsidies and protection from international competition. These sectors face a long period of adjustment as the government implements its obligations under the Uruguay Round and the European Economic Area (EEA) Accord, which is bringing Norway into the European Union's (EU's) "Single Market."

State intervention in the economy is significant. The government owns just over 50 percent of domestic businesses, including a majority stake in the two largest industrial conglomerates and the two largest commercial banks. While new legislation governing investment was implemented in 1995 to meet EEA and WTO obligations, there is still extensive screening of foreign investment and restrictions on foreign ownership.

The government's dependence on petroleum revenue has increased substantially over the past two decades, now generating about half of total government revenues. Due to high social welfare expenditures, the government has relied on oil revenue to cover shortfalls in the non-oil portion of the budget. Budgetary equilibrium has improved substantially since the 1986 low point. Tighter budgetary discipline and increasing oil revenue will enable Norway to eliminate its net foreign debt in 1995; and the government is projecting its first budget surplus of about $1.7 billion (2 percent of the budget) for 1996. The surplus is being set aside in a fund to supplement future budgets after 2015, when oil revenues may be substantially less.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry.

Although rejecting EU membership in November 1994 following a national referendum, Norway has preferential access to EU markets and theoretically is bound to nearly all EU directives (except regulating agriculture) through the EEA Accord which entered into force in January 1994.

The government controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank overnight lending rate. Since the government's priority is to maintain a stable

exchange rate in relation to strong European currencies such as the German mark, the Central Bank's flexibility is limited in using the money supply as an independent policy instrument.

2. Exchange Rate Policies

Although the Norwegian krone (NOK) was officially uncoupled from the ECU in late 1992, the policy of exchange rate stability relative to strong European currencies has caused the krone to strengthen significantly vis-a-vis the dollar during 1995.

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980's. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have never reported problems to the Embassy in remitting payments.

3. Structural Policies

Norway remains highly dependent on its offshore oil and gas sector. Despite some structural reforms in recent years, some of the government's highest economic priorities include maintaining high employment, generous welfare benefits, and rural job opportunities. Thus, parts of mainland economy—particularly agriculture and rural industries—remain heavily protected and inefficient. Although modest progress has been made in reducing subsidies to Norwegian industry, Norway's farm sector remains the most heavily subsidized in the OECD.

A revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. Further liberalization in the financial services sector occurred when Norway joined the EEA and accepted the EU's banking directives. The Norwegian banking industry continues to struggle with bad loan portfolios and overstaffing, although they have returned to profitability following the banking crises in the early 1990's.

Norway has taken some steps to deregulate the non-bank service sector. However, large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry. Looking ahead, the GON remains committed to an ambitious structural reform program which may gradually improve U.S. market access, but progress will likely be slow for political reasons.

4. Debt Management Policies

Norway's prudent budgetary and foreign debt policies in recent years are limiting the state's exposure in foreign markets. The government's gross external debt (foreign liabilities) of about $10 billion at the end of 1994 is likely to continue declining through 1996; and Norway's net foreign debt (foreign liabilities less foreign assets) will evaporate in 1995.

Since 1990, the government has allowed the private sector increased access to long-term foreign capital markets to facilitate improvements in the term structure of its foreign debt. Following the floating of the krone, foreign capital inflows have contributed to falling Norwegian interest rates.

5. Significant Barriers to U.S. Exports

Norway supports the principles of free trade but significant barriers to trade remain in place. While Norway is in the process of reforming its agricultural support regime, the government maintains high agricultural tariffs which are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the U.S. and other distant markets.

State ownership in Norwegian industry continues to raise competitive issues in a number of sectors including telecommunications, financial services, oil and gas, and alcohol and pharmaceutical distribution. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the two largest commercial banks, and the existence of specialized state banks which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol and medical drugs, which historically have been handled through state monopolies. Norway is obligated to terminate these monopolies under the EEA Accord but implementation is slow. The European Free Trade Association (EFTA) Surveillance Agency (ESA—the organiza-

tion responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas. While Norwegian policy clearly favors liberalization, progress has been limited due to opposition by Norwegian trade unions and other interest groups which are concerned about safeguarding national ownership.

6. Export Subsidies Policies

As a general rule the Government of Norway does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the government provides funds to Norwegian companies for export promotion purposes. Under its WTO obligations, Norway is reducing its agricultural subsidies in stages over six years. Norway has also ratified the OECD shipbuilding subsidy agreement and is eliminating those subsidies as of 1996, provided the agreement is ratified by other major shipbuilders including the United States and Japan.

7. Protection of U.S. Intellectual Property

Instances of Norwegian misappropriation of U.S. intellectual property are minimal and its effect on U.S. trade negligible. Norway is a signatory to the principal international intellectual property accords, including the Berne copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty.

Effectively curbing piracy is an important aspect of Norway's intellectual property regime. Norwegian manufacturers, for example, frequently complain about the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

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 days 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,089
Total Manufacturing		592
Food & Kindred Products	(1)	
Chemicals and Allied Products	12	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	9	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		197

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	100
Finance/Insurance/Real Estate	174
Services	21
Other Industries	114
TOTAL ALL INDUSTRIES	4,286

[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 unless otherwise noted]

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1990 prices)	58,442	61,484	65,500
Real GDP Growth (percent)	3.8	5.0	6.5
GDP (at current prices)	85,853	92,577	114,109
GDP by Sector (percent): [1]			
Agriculture	6.6	6.0	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	33.4	33.0	N/A
Construction	6.6	5.0	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
Govt, Health, Education	N/A	N/A	N/A
Net Exports: Goods, Services	N/A	N/A	N/A
Real Per Capita GDP('90 BPS, US$)	1,520	1,585	1,697
Labor Force (000s)	17,321	17,320	[2] 17,820
Unemployment Rate (percent)	16.4	16.0	[2] 14.4
Money and Prices (annual percentage growth):			
Money Supply (M2)	28.8	38.70	[2] 54.3
Base Interest Rate [3]	35.0	33.0	29.0
Personal Saving Rate [4]	20.3	20.4	[2] 21.3
Wholesale Inflation	37.0	27.9	21.8
Consumer Price Index	37.6	29.5	23.0
Exchange Rate (Pzl/US$) [5]	1.81	2.27	2.42
Balance of Payments and Trade:			
Total Exports FOB	14,143	17,240	20,408
Exports to U.S.	410.7	591.9	[6] 353.5
Total Imports CIF	18,834	21,569	23,322
Imports from U.S.	974.5	840.1	[6] 644.1
Aid from U.S.	96	75	90.4
Aid from other countries	370	330	N/A
External Public Debt	47,246	42,170	41,160
Debt Service Payments (paid)	1,793	1,483	2,500
Gold and Foreign Exchange Reserves (Bils of US$)	4.28	6.03	[2] 14.0
Trade Balance	−4,691	−4,329	−2,914
Balance with U.S.	−563.8	−248.2	[6] −290.6

[1] Polish reporting on GDP by sector differs from these categories and is generally not compatible.
[2] Forecast for the end of the year.
[3] Refinancing rate.
[4] Zloty and dollar deposits expressed in Zloty terms, as a share of GDP.
[5] Averages over the year.
[6] End of July 1995.

1. General Policy Framework

Six years after starting the transition to a free market economy, Poland recorded its fourth consecutive year of strong growth in 1995 as one of the fastest expanding economies in Europe. This recovery has been based on a surge in exports, industrial output, and unregistered cross-border trade. An unofficial grey market economy is estimated at 20 to 30 percent of official GDP. In 1995, foreign reserves soared, the zloty slipped only slightly against major foreign currencies, and inflation continued to decline, leading to a real appreciation of the zloty. Polish agriculture remained handicapped by its structural problems, inefficient small farms, and lack of investment, but 1995 output returned to normal levels after several drought-plagued years.

For the past two years, a coalition of the Post-Communist and Peasant Parties has resisted strong pressures from its supporters to increase spending, and it has held the budget deficit to less than three percent of GDP. Most of the deficit is financed domestically, but Poland successfully returned to international capital markets in 1995 by floating a bond issue for the first time in years. Further progress on public finance depends on comprehensive reform of the social welfare system. In addition, although private sector output has risen from 28 to 55 percent of GDP since 1989, much of that is the result of newly established firms, and Poland still has a large, inefficient state sector. Privatization efforts have slackened since 1992, though 1995 saw the launch of a mass privatization plan and the first steps to open a number of highly attractive sectors, such as copper and tobacco, to foreign investors.

Monetary policy remains in the hands of the independent National Bank (NBP), which focuses on control of monetary aggregates to maintain economic stability and reduce inflation. The main challenge the NBP faced in 1995 was to restrain money-supply growth caused by the rapid build-up of foreign exchange reserves. The strong zloty and significant reserves allowed Poland to repay its IMF standby loan ahead of schedule in 1995.

Poland's main foreign economic policy goal remains European Union (EU) membership. Its association agreement with the EU came into force in 1994, and accession negotiations are likely to start in 1997. Poland is now focussing on the steps necessary to harmonize its legal structure with EU directives and norms. However, problems remain over agriculture, anti-dumping actions and other limits by the EU on Polish exports, as well as product standards. As an intermediate step towards regional integration, Poland has been the principal proponent of widening and deepening the Central European Free Trade Agreement (CEFTA), which currently includes Hungary, Slovakia, Slovenia, and the Czech Republic.

Poland officially joined the World Trade Organization on July 1, 1995, although it still has not formally re-acceded to the GATT. Certain WTO provisions, such as TRIPS (trade related intellectual property measures) will come into effect in 1996. Poland also aims to become a member of the Organization for Economic Cooperation and Development (OECD) by mid-1996, once it carries out additional measures to liberalize capital flows, regulations governing investments, and real estate transactions involving foreigners.

2. Exchange Rate Policies

Since 1990 the Polish zloty has been internally convertible for all current transactions, including full repatriation of profits on foreign investments. In 1995 Poland achieved IMF Article VIII current account convertibility. The NBP began a policy in 1991 of managing the exchange rate through a crawling peg mechanism which currently devalues the zloty 1.2 percent per month against a basket of reserve currencies (in percentage terms: Dollar—45; Deutch Mark—35; Sterling—10; and French and Swiss Francs—5 each). In mid 1995, the NBP allowed the zloty to float within a seven percent band of the peg, which effectively resulted in a one-time appreciation of about six percent. While the crawling peg mechanism is designed to offset domestic inflation and keep Polish exports competitive, the gap between inflation and the nominal devaluation has meant continued real appreciation of the zloty in 1995 and a resulting loss in competitiveness for Polish exporters.

Although the zloty is fully convertible for current account transactions, capital account transactions still require a permit from the Central Bank. In 1995, Parliament liberalized the foreign exchange law further by allowing Polish companies to hold foreign currency bank accounts—Polish citizens have long had this right.

3. Structural Policies

Prices: Most subsidies and controls on the prices of consumer goods were eliminated in Poland's 1990 "big bang" reform shock therapy. Poland continues to subsidize a few agricultural-related items, including pesticides and fertilizers, and ad-

ministratively sets prices for fuel and public transportation. A 1994 Rent Reform Act sharply curtailed indirect rent subsidies in public housing (about one-third of housing stock). An anti-trust office is responsible for policing the competitive practices of Polish enterprises and keeping them from exploiting their monopoly positions in the domestic market.

Taxes: Poland has successfully introduced a modern tax system, though inconsistent tax administration remains a complaint of U.S. investors. Poland inaugurated a series of special economic zones in 1995 which will provide foreign investors with substantial tax holidays for the first years of operation. The largest source of government revenue is the Value-Added Tax introduced in 1993. A number of politically powerful state-owned enterprises continue to enjoy special tax breaks—the largest source of subsidies left for Polish industry. Poland complies with the harmonized tariff system schedule—customs duties remain a significant source of revenue at about ten percent. All commodities imported into Poland in 1995 were subject to an obligatory five percent import tax in addition to customs levies; this will drop to three percent in 1996.

Regulatory Policies: There are few restrictions placed on foreign trade. Any person or firm registered as a business may engage in foreign trade. Import and export licenses and restrictions are generally confined to strategic goods. The primary difficulty concerns newly introduced product certification standards (see barriers below). Another challenge for new products never before sold in Poland is the requirement for Ministry of Industry approval to use/sell new technology and/or products.

4. Debt Management Policies

After a spectacular default in the 1980s, Poland has combined debt forgiveness, prudent financing, and a booming economy to complete a turnaround. In 1994, Poland concluded a debt-reduction arrangement with the London Club group of commercial banks which provided for an overall level of debt forgiveness of about 50 percent. Poland's 1991 Paris Club Agreement with western official creditors achieved a similar scope of debt forgiveness. At the end of 1995, Poland's total foreign debt stood at $41.4 billion, including $28.6 billion to the Paris Club, $7.7 billion to the London Club, and $1.7 billion to the World Bank. As a result of soaring foreign exchange reserves, Poland fully repaid its IMF drawings in July 1995; total debt repayments for the year totalled $2.5 billion. Foreign debt is projected to drop to $39.6 billion in 1996.

In 1995, Poland received an investment grade rating from Moody's rating agency, allowing for a successful return to the international credit markets with a limited $250 million Eurobond flotation. Poland plans additional bond floats of approximately $500 million in 1996. With increasing foreign exchange reserves and a domestic market which provides the bulk of financing, the modest borrowing is largely for symbolic purposes—to demonstrate credit worthiness on commercial markets.

5. Significant Barriers to U.S. Exports

Import Licenses: Poland requires import licenses for some strategic goods: munitions and military products, internationally-controlled strategic items, radioactive materials, transportation equipment and certain chemicals. It also issues licenses for beer and wine, fuel, cigarettes, and certain agriculture and food products (including dairy and poultry). The plant quarantine inspection service issues a mandatory phyto-sanitary import permit for all imports of live plants, fresh fruits, and vegetables into Poland.

Services Barriers: In general, Poland maintains few barriers in services. Telecommunications stands as the primary exception; Poland refuses to break the domestic voice transmission monopoly of Polish Telecom and Post (TPSA) or to allow foreign firms to compete. While Poland permits foreign banks to establish subsidiaries in Poland, either wholly-owned or as joint ventures, the NBP has pressured foreign banks to become involved in bailing out ailing Polish banks as an informal condition for granting them their own banking licenses. NBP has also made it known that it is not inclined to grant any more licenses for foreign bank branches and has not issued any such licenses since it granted two in 1991. Foreign companies are prominent in the travel and tourism industry, but the Ministry of Industry and Trade regulates entry.

Standards, Testing, Labelling, and Certification: Poland does not recognize international product standards but sets its own. The primary Polish regulation which may adversely affect U.S. exports is the requirement, as of January 1, 1996, for some 1400 products to obtain a safety "B" certificate from the Center for Testing and Certification (PCBC) or one of 15 specialized institutes supervised by the PCBC. As a result, U.S. exports accepted elsewhere in Europe may face difficulty in Poland

and may be liable for fines amounting to 100 percent of the value of the goods sold. Procedures to obtain waivers of certain technical requirements exist, but the U.S. and EU are pressing Poland to scrap its own system and accept international product and safety standards.

Investment Barriers: Polish law permits 100 percent foreign ownership of a corporation, but it does not allow such foreign ownership of partnerships and sole proprietorships. In preparing for OECD membership, Polish officials have stated they will introduce national treatment, improve capital flows, and relax restrictions on foreign ownership of land. Currently the Ministry of the Interior must issue a permit for foreign acquisition of real estate or a Polish enterprise owning real estate. Foreigners may lease forests and agricultural land for up to 99 years but may not buy it outright. While the Ministry issues permits to a majority of the thousands of yearly applications, it refuses a substantial number.

While foreigners may own 100 percent of a corporation, the Polish State Treasury retains a golden share in most enterprises being privatized and restricts foreign ownership to less than 50 percent in sensitive industries. While foreign companies owning a strategic stake are meant to have managerial control of the enterprise, in at least one joint venture, Centertel, the supposedly passive Polish majority stake holder sought to seize managerial control from the minority foreign partners.

Strategic sectors which require a permit from the Minister of Privatization for foreign investment include: seaport or airport management; real estate sales and services; defense industries; wholesale trade in consumer goods; and legal and tax advice services. Under Polish broadcasting legislation, a foreign investor may not own more than a 33 percent stake.

Government Procurement Practices: Poland's new government procurement law, which came into effect in January 1995 at the national level and will come into effect January 1996 at the regional (Gmina) level, is modelled on the UN model procurement code. It is based on competition, transparency, and public announcement. The only single source breaches of the stated preference of unlimited tender come for reasons of state security or national emergency. The law established a Central Policy Office of Public Procurement and a National Bulletin of Public Procurement listing all tenders over 20,000 ECU. The bulletin is available in English on the Internet: http: www.Urm.Gov.Pl uzp indexuzp.Htm

There are two elements of domestic preference in Poland's procurement policy. First, there is a mandated 50 percent domestic content for all goods and services provided, except for construction, it is 50 percent of both raw materials and labor. In addition, domestic bidders are given a 20 percent price preference. According to implementing regulations, companies with foreign participation organized under the joint ventures act of June 14, 1991 may qualify for "domestic" status under procurement laws. There is also a protest/appeals process for tenders viewed to be unfairly awarded.

Customs Procedures: The rapid growth of imports since Poland's economy was opened up six years ago, as well as the proliferation of traders, has strained Polish customs' capabilities. Border and port facilities and personnel are overwhelmed by the volume of cargo they must process. Communications between headquarters and field offices is poor, leading to inconsistent application of the rules, and customs officials have been accused of incompetence and corruption, even by other Polish authorities.

Poland has a harmonized tariff system; it signed the GATT Customs Valuation Code in 1989. The customs duty code currently binding in Poland has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU grants EU country firms certain tariff preferences over U.S. competitors.

6. Export Subsidies Policies

With its accession to the WTO, Poland has ratified the Uruguay Round Subsidies Code. Poland has also announced its intention to join the OECD Code on Shipbuilding but is requesting a five-year restructuring transition period. Poland has eliminated its past practices of tax incentives for exporters, but it still offers, on a negotiated basis, some tax holidays to foreign investors who plan to export. Poland also provides for drawback levies on raw material imports which are processed and reexported in finished products within thirty days. A new law restructuring the sugar refining industry essentially creates export subsidies for sugar, financed out of high domestic prices.

7. Protection of U.S. Intellectual Property

The Polish government has made major strides in improving protection of intellectual property rights. Laws are adequate, but enforcement remains problematic, re-

sulting in continuing piracy and trademark infringement. A new Copyright Law in 1994 guaranteed nearly all internationally recognized standards for the protection of literary, musical, graphical, software, and audio-visual works, as well as industrial patterns. The one gap, concerning sound recordings by foreign artists, will be closed in January 1996 as TRIPS related provisions of the WTO Agreement come into effect. In addition to full adherence to the 1971 Paris Act of the Berne Convention, Poland is working with EU countries to update the Rome Convention, which covers broadcasting as well as production of recordings. Poland's Trademark Law of 1985 and its patent provisions also provide protection on internationally accepted levels.

Most of the pirated or fake items available in Poland are imported from abroad (CDs from Bulgaria and Russia; illegal hosiery from Italy) rather than being manufactured in Poland. Industry associations estimate 1995 levels of piracy in Poland to be: 30 percent in sound recordings; 10 percent in books and video; and 90 percent in computer software. With the advent of the WTO TRIPs Agreement in 1996, sound recording piracy is expected to drop to less than ten percent.

Enforcement of the legal framework for copyrights and trademarks remains the primary issue. Polish law enforcement authorities have willingly cooperated with U.S. firms such as Dupont and Levi Strauss and industrial associations such as the International Federation of the Phonographic Industry (IFPI) to defend their trademarks and copyrights in dozens of raids in 1995. However, Poland lacks the manpower and resources to address the situation adequately and must often rely on the rights holders to provide preliminary evidence of violations.

8. Worker Rights

Poland is in the process of drafting an entirely new labor code which will redefine the rights and duties of employers and employees in much more general, less intrusive, free-market terms. The Polish Sejm (Parliament) has been working on the legislation for three to four years.

a. *The Right of Association.*—Polish law guarantees that all civilian workers, including military employees, police and frontier guards, have the right to establish and join trade unions of their own choosing, the right to join labor federations and confederations, and the right to affiliate with international labor organizations. Independent labor leaders reported that these rights were largely observed in practice.

b. *The Right to Organize and Bargain Collectively.*—The 1991 laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity. Labor leaders, however, reported numerous cases of employer discrimination against workers seeking to organize or to join unions in the growing private sector.

c. *Prohibition of Forced or Compulsory Labor.*—Poland has ratified ILO Conventions 29 and 105 on forced labor. Compulsory labor does not exist, except for prisoners convicted of criminal offenses, and is otherwise prohibited by law. There have been no reports of coerced or bonded labor.

d. *Minimum Age for Employment of Children.*—Polish law contains strict legal prescriptions over the conditions in which children may work. In 1994, however, the State Labor Inspectorate reported that increasing numbers of Polish children now work and that many employers violate labor rules in employing them (underpaying or paying them late).

e. *Acceptable Conditions of Work.*—The large size of the grey market economy along with the insufficient number of labor inspectors complicate enforcement of minimum wage requirements (currently about 75 cents/hour) and minimum conditions for protection of workers' health and safety. Enforcement of standards is a significant problem because the State Labor Inspectorate is unable to monitor sufficiently either the state or private-sector, where a growing percentage of accidents takes place.

f. *Rights in Sectors With U.S. Investment.*—Observance of the five worker rights conditions in firms which have U.S. investment often exceed those of similar Polish firms in those goods-producing sectors. In cases where American companies purchase an existing Polish enterprise, unions usually continue to operate. There tend to be no unions, however, where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		350
Food & Kindred Products	161	
Chemicals and Allied Products	38	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	8	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		28
Banking		(1)
Finance/Insurance/Real Estate		20
Services		(1)
Other Industries		45
TOTAL ALL INDUSTRIES		515

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

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

PORTUGAL

Key Economic Indicators

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

	1993	1994[1]	1995[2]
Income, Production and Employment:			
Real GDP (1989 prices)[3]	54,173	52,032	60,120
Real GDP Growth (percent)	−1.2	1.0	2.5
GDP (at current prices)	85,572	88,035	103,700
GDP by Sector:			
Agriculture	4,364	4,578	5,289
Energy and Water	3,423	3,609	4,252
Manufacturing	22,078	22,801	26,858
Construction	4,621	4,754	5,704
Services (net)	51,086	52,293	61,597
Net Exports of Goods, Services, and Transfers[4]	−68	−1,886	−2,244
Real Per Capita GDP (US$)	5,490	5,468	6,101
Labor Force (000s)	4,471	4,530	4,517
Unemployment Rate (percent)	5.5	6.8	7.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.2	9.2	4.5
Base Interest Rate[5]	11.0	10.4	9.0
Personal Savings Rate	13.9	12.6	12.0
Retail Inflation (percent)	6.5	5.2	4.0
Consumer Price Index[6]	116.0	122.1	127.0
Exchange Rate (PTE/US$)	160.8	165.9	150.0
Balance of Payments and Trade:			
Merchandise Exports (FOB)[4]	17,069	18,483	14,903
Exports to U.S.[7]	670	916	533
Merchandise Imports (CIF)[4]	26,462	26,119	21,730
Imports from U.S.[7]	765	967	558
Transfers from EU	3,851	3,061	4,553

Key Economic Indicators—Continued

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

	1993	1994[1]	1995[2]
External Public Debt	5,613	8,650	11,866
External Debt Service Ratio	15.3	12.2	10.4
Gold and Foreign Exchange Reserves	21,005	20,716	20,615
Trade balance	−9,393	−7,636	−6,827
Balance with U.S.	−95	−51	−25

[1] Estimated.
[2] Projected.
[3] GDP at market prices.
[4] As of 1/1/93 on a cash basis; for 1995, Jan.-Aug. only.
[5] 91-day Treasury Bills—primary market.
[6] New Series: 1991=100.
[7] Jan.-June only.

1. General Policy Framework

The government's ultimate 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 end-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) by 1999. 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 continued budget discipline and tight monetary policy in defense of a broadly stable exchange rate; wage and price moderation to support the disinflation process; and privatization and trade policies to increase the efficiency and productivity of the economy. Portugal's economy is based on traditional industries such as textiles, clothing, footwear, cork and wood products, beverages (wine), porcelain and earthenware, and glass and glassware. Portugal strengthened its position in the automobile industry in 1995 when the multibillion dollar AutoEuropa project began to produce Ford and Volkswagen vans at a state-of-the-art plant in Setubal for export to European markets. The country also has a burgeoning tourism industry: in 1994, 21.7 million tourists arrived in Portugal from Spain, the United Kingdom, Germany, France, and the United States.

Portugal traditionally runs a large merchandise trade deficit, which it finances through net receipts from tourism, remittances from Portuguese workers abroad, and net transfers from the EU. Net EU transfers in 1995 are expected to be about $3 billion, or 3 percent of GDP. During 1989–1994, Portugal's current account was broadly in balance and foreign direct investment averaged close to $2 billion, or 2.6 percent of GDP.

Fiscal Policy: The government finances its deficit largely through issuance of medium-term escudo and foreign currency-denominated treasury obligations. Although escudo-denominated issues carry a significant risk premium, the GOP enjoys a solid international credit rating and has ready access to international financial markets. Three kinds of government spending put pressure on the deficit: spending on needed health and education programs; domestic counterpart funding for major public investment projects co-financed with the EU; and large central government and state-owned enterprise payrolls. As in other EU countries, value-added taxes (17 percent in Portugal's case) raise prices to consumers. Other direct taxes, such the cylinder-based automobile tax, affect product demand in specific markets.

Monetary Policy: The government subordinates monetary policy to the need to maintain a broadly stable exchange rate. Interest rates and the monetary aggregates therefore generally reflect market conditions. The Bank of Portugal intervenes as necessary—through liquidity absorption/provision and foreign exchange operations—to ensure medium-term price and exchange rate stability. The Bank of Portugal lowered banks' non-remunerated minimum required reserves ratio to 2 percent from 17 percent in November 1994.

2. Exchange Rate Policies

Portugal participates with Belgium, Luxembourg, Denmark, Germany, Spain, France, Ireland, the Netherlands, and Austria 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 six 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. Since August 1993, the authorities have kept the escudo well within the old six percent band against the German mark. Since the partial realignment of the central rate in March 1995, the escudo has traded in the range of 104 to 105 escudos to the mark. During 1994 and 1995, real dollar depreciation improved the price competitiveness of U.S. exports by some 15 percent: the dollar depreciated about 11 percent against the escudo, while Portuguese inflation exceeded that of the United States by about four percentage points. U.S. exports to Portugal increased accordingly over this period, although most experts agree resumption of economic growth and import demand in Portugal was an even more important reason for the growth in U.S. exports.

3. Structural Policies

The Portuguese government continues to liberalize the economy to stimulate growth and convergence with EU standards. Investment in new public infrastructure, privatization and foreign direct investment are changing the face of the economy and creating demand for U.S. exports.

Portugal is rapidly improving its road, energy, and sanitation infrastructure and will receive $20 billion in EU structural funds during 1994–1999 to finance the investment. Large infrastructure projects related to the Lisbon World Exposition (EXPO '98), the new Tagus River bridge, northern rail modernization, natural gas pipeline, subways, highways, and dams offer numerous opportunities for U.S. exporters of equipment and services.

The government is also rolling back the state presence in the economy through full or partial privatization of state-owned enterprises. State-owned companies in sectors such as telecommunications, steel, cement, and basic chemicals will be streamlining and upgrading operations under private management and thereby creating new markets for U.S. goods and services. Foreign investment in the automotive, electronics and financial sectors are steadily integrating Portugal's economy with those of Europe and other developed countries. These investments will have direct spillover effects for U.S. exports.

4. Debt Management Policies

Portugal's external debt is relatively small and can be serviced comfortably. Effective direct state external debt stands at about $12 billion—11 percent of GDP and 57 percent of foreign exchange reserves. In August 1995, the debt service ratio stood at 10.4 percent, with long-term principal payments and interest payments amounting to 7.4 percent and three percent, respectively, of current account receipts. Large international reserves (amounting to 22 percent of GDP), and the ability to tap international financial markets on favorable terms, enable Portugal to manage balance of payments pressures and maintain financial stability.

Portugal is an aid donor nation and 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. Portugal participated in the debt rescheduling negotiations for Algeria in the Paris Club with respect to its export credits to Algeria.

5. Significant Barriers to U.S. Exports

As of January 1, 1993, all barriers to trade, capital flows and labor mobility between Portugal and its EU partners were eliminated. Most barriers to U.S. exports, therefore, are common to all EU member states.

Quantitative import restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines for certain countries. Textiles are covered by the Multi-Fiber Arrangement (MFA) and protected by EU-wide quotas that will be phased out over 10 years under the Uruguay Round Agreement.

Portugal follows EU directives for standards, testing, labeling, and certification. The Portuguese Quality Institute establishes national standards and implements EU directives. Portugal has already adopted most EU directives into Portuguese law. The Portuguese Telecommunications Institute sets standards for telecommunication products, and the National Laboratory of Civil Engineering sets construction standards.

Low voltage electrical and electronic equipment must meet the requirements of EC directive 73/23/EEC. Imported textiles, apparel, and leather goods must carry a label indicating country of origin and composition by percentage of the fabric.

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.

Portugal's 1990 privatization law limits foreign participation in state-owned enterprises being privatized. In practice, however, these limitations have had no effect on U.S. investors. Portugal limits foreign (non-EU) investment to 15 percent in television broadcasting and 25 percent in telecommunications firms. Only companies headquartered in Portugal and whose majority of capital and management control belongs to Portuguese national entities can receive licenses to operate marine and air transport. Air transport between the Azores and mainland Portugal remains a public monopoly.

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.

6. Export Subsidies Policies

Portugal instituted the Special Program of Support for the Export Sector (PEASE) to promote diversification of Portugal's export markets. Under this program, the government contracts with a private insurance firm, COSEC, to provide political risk coverage for interbank credit lines to support Portuguese exports to "non-traditional" (high-risk) markets. State-owned Banco de Fomente e Exterior (BFE), which owns 40 percent of COSEC, executes the transactions for the government. Through BFE, the government has established credit lines and agreements with 16 target markets: Algeria, Morocco, Tunisia, South Africa, Zimbabwe, Namibia, Argentina, Chile, Venezuela, Brazil, Czech Republic, Hungary, Slovenia, Poland, Iran, and Israel. The total amount of credit made available for exports of consumer and intermediate goods is $490 million; the total amount for capital goods is $187.5 million.

7. Protection of U.S. Intellectual Property

The Portuguese government passed a revised Code of Industrial Property which became effective on June 1, 1995. The new code conforms with the trademark and patent provisions of the TRIPs agreement. Portugal's current substantive law on copyright protection, promulgated in 1985 is also largely in accordance with TRIPs; however, the Portuguese government is currently in the process of transposing EU directives on rental and broadcasting into law. Penalty provisions also have yet to be raised to TRIPs levels. 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.

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. Enforcement action against unauthorized copying of software and audio and video cassettes has also become more common.

Enforcement of patent laws is sometimes weak, but enforcement agencies are being strengthened. The 1995 Code of Industrial Property significantly increased penalties for trademark violation. 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 constitutional right to associate freely and establish unions in the workplace "to defend their interests." Unions may be established by profession or industry. Strikes are permitted for any reason, including political causes; they are common, and generally are resolved through direct negotiations. There are two principal labor federations. The General Confederation of Portuguese Workers—Intersindical (CGTP–IN) is linked to the Communist Party. It is affiliated with the European Trade Unions Confederation (ETUC). The General Union of Workers (UGT) has links with the Socialist and Social Democratic parties and is 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 interference by the government or by employers. Collective bargaining is guaranteed by the Constitution and practiced extensively in the public and private

sectors. When collective bargaining disputes lead to prolonged strike actions in essential sectors such as health, energy, or transportation, the government is empowered to order the workers back to work for a specific period. Under a modification of the strike provisions, a "minimum level of service" must be provided during strikes in essential sectors.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited and does not occur. 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 of 9 years of compulsory schooling takes effect on January 1, 1997. The two main labor federations and observers from other European countries have charged that a number of "clandestine" companies in the textile, shoe, and construction industries exploit child labor. 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 minimum wage (currently 52,000 escudos, or about $350 per month) was last adjusted on January 1, 1995, and is generally enforced but does not apply to workers below the age of 18. Current legislation limits regular hours of work to 8 hours per day and 44 hours per week, but the current government is committed in principle to reduce the workweek to 40 hours. Overtime is limited to 2 hours a day, up to 200 hours annually. Workers are guaranteed 22 days of paid annual leave per year. Employers are legally responsible for accidents at work, and are required by law to carry accident insurance. Accidents average between 70,000 and 75,000 per quarter. A relatively large proportion are in the construction industry. These figures have focused the government's attention on improving worker safety, particularly in the construction sector. There is also considerable concern about poor environmental controls in the textile industry.

f. *Rights in Sectors With U.S. Investment.*—Legally, worker rights apply equally to all sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		438
Food & Kindred Products	189	
Chemicals and Allied Products	65	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	4	
Electric & Electronic Equipment	89	
Transportation Equipment	(1)	
Other Manufacturing	38	
Wholesale Trade		361
Banking		(1)
Finance/Insurance/Real Estate		126
Services		190
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,458

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

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

ROMANIA

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (billion 1993 lei)	19,733.3	20,423.9	21,342.9
Real GDP Growth (percent)	1.3	3.5	4.5
GDP (in current dollars)	25,961.4	29,205.4	30,697.8
GDP by Sector:			
Industry	8,930.7	10,601.5	11,625.3
Agriculture/Forestry	5,477.8	5,724.2	7,225.2
Construction	1,220.2	1,547.8	1,834.6
Transport/Telecomms	1,739.4	1,693.9	1,755.7
Trade/Tourism	3,245.1	3,563.0	3,651.8
Other Services	5,348.2	6,075.0	4,605.2
Net Exports of Goods and Services	−1,744.5	−1,128.7	−1,545.0
Real GDP Per Capita (US$)	1,140.9	1,283.4	1,352.0
Labor Force (millions)	10.1	10.2	10.2
Unemployment (percent)	10.2	10.9	9.5
Money and Prices:			
Lending Interest Rate (percent)	56.7	90.4	48.5
Rate on Deposits (percent)	34.3	56.9	36.0
Retail Inflation[1]	295.5	61.7	29.0
Exchange Rate (lei/US$—annual average): Official	760.1	1,655.1	2,150.0
Balance of Payments and Trade:			
Merchandise exports (FOB)	4,892.1	6,151.3	7,000.0
Exports to U.S.	39.0	188.5	217.7
Merchandise imports (FOB)	6,521.6	7,109.0	8,500.0
Imports to U.S.	202.0	347.5	425.0
Trade Balance	−1,629.5	− 957.7	−1,500.0
Balance with U.S.	−163.0	−159.0	−207.3
Aid from U.S.	34.7	44.1	43.5
Aid from Other Countries[2]	1,188.3	1,148.9	1,088.0
Debt Service Payments	334.0	624.2	797.0
Gold and Foreign Exchange Reserves (net)[3]	1,669.2	2,759.5	2,250.0

[1] End of year retail inflation rate.
[2] Total assistance pledged by G–24 countries, international financial institutions and PHARE program, less aid from the United States.
[3] Total official and commercial banking system net foreign assets at end of period.

1. General Policy Framework

During 1995 Romania made substantial progress toward economic reform and recovery. The parliament passed long awaited laws on bankruptcy and mass privatization. The latter committed Romania to transfer gratis to the public a majority of the equity in 3,900 state-owned companies by April 1, 1996, a process which will also create over 16 million new shareholders. Foreign investment rose steadily during the year, with cumulative registered foreign investment reaching $1.55 billion in October 1995 (up from $1.25 billion on January 1). Among the U.S. companies making new commitments were Pizza Hut, Amoco, Reynold's Tobacco, McDonald's, Procter and Gamble, Citibank, and IBM. On November 20, the newly-reopened Bucharest stock exchange began trading activity after a break of nearly 50 years. In the same month, Romania reached agreement with the International Monetary Fund on a one-year extension of the Fund's existing stand-by arrangement. This accord further reassured foreign investors and international capital markets of Romania's commitment to conservative fiscal and monetary policies.

These positive developments took place against a backdrop of accelerating economic growth (GDP was expected to rise 4.5 percent to $30.7 billion in 1995), falling unemployment, and generally declining consumer price inflation (expected to be 29 percent for 1995). The strong GDP growth rate was Romania's best since 1984. It was based on a healthy revival of industrial output, an excellent grain harvest, and

a broad-based revival of construction activity. The main area of concern was the current account balance, projected to be a negative $1.5 billion in 1995, which has deteriorated sharply due to the rapid growth of domestic consumption and the lagged effects of an over-valued exchange rate early in the year. In order to support the national currency against speculative pressure in November, the National Bank of Romania raised its discount rate to 52 percent. At the same time, the Finance Ministry used its administrative authority to block government spending and hold the consolidated 1995 government budget deficit to 2.9 percent of GDP.

Despite steady improvement in the overall economic picture, Romania's per capita GDP ($1,352 in 1995) remains among the lowest in central Europe. As a result, living conditions for much of the population are difficult. The average gross monthly wage in Romania in October 1995 was roughly $135, an amount insufficient to provide a decent standard of living for most people. In rural areas, the small size of Romania's 3,000,000 private farms (two hectares on average) makes it difficult to support efficient operations and generate surplus income for investment.

The reintegration of Romania into world markets is a central feature of government 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 the first nine months of 1995, it accounted for 53.5 percent (or $2.9 billion) of Romania's total merchandise exports of $5.4 billion, and provided 49.9 percent ($3.4 billion) of its total merchandise imports of $6.8 billion. In contrast, the United States accounted for 2.6 percent ($140 million) of Romania's exports and 4.3 percent ($294 million) of its imports.

2. Exchange Rate Policies

As a part of its macroeconomic stabilization package, the National Bank of Romania liberalized Romania's foreign exchange auction system in April 1994. The reform, which replaced the former administered rate with a market-clearing rate set by licensed commercial bank broker/dealers, substantially narrowed the gap between the official rate and that prevailing in the system of legalized exchange houses. The relative stability of the leu following this reform allowed the National Bank to implement a second-stage liberalization—involving the creation of a full-fledged interbank market—beginning in August 1994.

The system operated smoothly until the winter of 1994–95, when the National Bank of Romania, fearing the domestic consequences of a rise in imported energy prices, used its influence to keep the leu steady at about 1800 per U.S. dollar. This policy, though relaxed in February, helped contribute to a surge in imports and a ballooning current account deficit. Romania's subsequent inability to finance this deficit without resorting to drawdowns of its hard currency reserves led to severe downward pressure on the national currency in late 1995. Between October and November 1995, the leu fell from 2100 per dollar to 2550 per dollar with no clear indication that a new equilibrium level had been achieved. Meanwhile, the gap between the interbank rate and the exchange houses, where the leu traded at around 3000 per dollar, remained a cause of significant concern.

In late 1995, the National Bank of Romania moved decisively to address these problems through a significant tightening of controls on commercial bank credit expansion and sharply higher interest rates. In November, the National Bank raised its discount rate from 42 percent to 52 percent in an attempt to support the national currency and prevent a flight to dollars. It also moved to shut down exchange houses that ignored the central bank's regulations on hard currency transactions. These rules prevent the removal of more than token amounts of leu from Romania by private citizens. Romanians are also prohibited from holding foreign bank accounts, though they are permitted to own U.S. dollar-denominated bank accounts domestically. Private 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. Commercial companies must obtain an import license before buying hard currency, and all domestic transactions between Romanian individuals and legal entities must be conducted in leu.

3. Structural Policies

Economic reform has entailed creating new laws in virtually every sphere, including finance, commerce, privatization, intellectual property rights, banking, labor, foreign investment, environment, and taxation. Among the more recent developments have been the passage of a bankruptcy act and the mass privatization law, as well as several executive ordinances to assist state-owned enterprises in downsizing and restructuring. The Parliament has also passed legislation for the restitution of properties nationalized during the Communist era. Several gaps remain in the legal framework. Chief among these are the absence of a modern copy-

right law that includes protection for computer software, a petroleum law that would regulate concessions for petroleum and gas exploration, and a modern telecommunications law. Draft bills on all of these areas were before Parliament in late 1995.

Since 1989, Romania has gradually liberalized prices and eliminated most direct producer and consumer subsidies. The main exceptions are in coal production, public transportation, and household energy and heating. Among food products, the principal remaining subsidies as of November 1995 were for bread and milk. These served to guarantee that a basic minimum of food would be available to allow the survival of pensioners and others living on small incomes.

Romania continues to lag behind most other Central European countries with regard to development of the private sector. In 1995, the private sector accounted for about 40 percent of GDP and employed an estimated 52 percent of Romania's total employment (5.2 million out of 10.1 million), including some three million farmers, 1.9 million owners and employees of private firms, and 300,000 self-employed individuals. Private sector activity accounted for about 14 percent of industrial output, 50 percent of construction activity, 70 percent of retail sales turnover, and 70 percent of farm production. The new mass privatization program should greatly assist the expansion of the private sector, shifting perhaps an additional ten percent of GDP from the state to the private sector. It should also help to create conditions for the expansion of equity markets.

The restructuring and downsizing of state-owned enterprises continues apace throughout the economy. In 1995, jobs were being eliminated in state industries at a rate of approximately 7,500 per month. This trend is expected to accelerate as companies are transferred to private ownership and improved management shifts priority to enterprise profitability from the Communist-era objective of maintaining employment levels. New regulations allow the government to pay up to six months' salary to workers who lose their jobs through restructuring. At the same time, the government is increasing financial supervision of state enterprises that either incur losses or generate chronic arrears.

4. Debt Management Policies

During the late 1980's, former dictator Ceausescu forced the liquidation of all foreign debt by accelerating repayments and exports in order to reduce foreign influence. By April 1989, Romania's debt was virtually zero and the country was briefly a net external creditor. After the December 1989 revolution, foreign borrowing was resumed. By the end of 1995, medium and long-term external debt amounted to about $4.5 billion. Nonetheless, in 1994, debt service payments still amounted to only 8.7 percent of Romania's exports of goods and services.

Romania signed a standby agreement with the IMF in May 1991 that provided for $500 million in balance of payments assistance, plus up to $400 million in additional contingency and compensatory assistance. This program was terminated in February 1992 when, as a result of the build-up of debt in state-owned enterprises (essentially soft credits to suppliers), it became evident that Romania would not be able to meet the IMF monetary growth target. Another standby agreement was negotiated in May 1992 that provided for assistance totaling $440 million. This program was also terminated before the final tranche of assistance had been drawn.

Negotiations on a third IMF 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. In November 1995, in the face of a deteriorating current account balance, Romania reached an agreement in principle with the IMF to extend the program for an additional year.

5. Significant Barriers to U.S. Exports

Trade and investment barriers as traditionally defined are not a significant problem in Romania. There are no laws which directly prejudice foreign trade or business operations, although high tariffs make some foreign goods uncompetitive in the Romanian market. The government generally makes a good faith effort to assist in resolving disputes involving U.S. and Romanian firms and has given high priority to developing closer business links with the West. However, impediments to bilateral trade and investment may still arise due to cultural differences, the nature of the reform process, or attitudes and practices carried over from the days when Romania's economy was centrally planned.

The changing legal and regulatory environment has been a source of difficulty for foreign companies seeking to participate in the Romanian economy. There are few

legal specialists qualified to interpret the commercial implications of Romanian legal developments and there is little experience in Romania with Western contract practices. There are no effective means to enforce contracts. In addition, title insurance is not available for property acquisitions and purchasers may be subject to legal challenge by former owners or managers. Although bankruptcy legislation was enacted in August 1995, no companies have made use of the new procedures. The absence of effective legal recourse for claims against debtors is a further complication for foreign investors.

The frequent shuffling of officials in both government and industry also poses problems for outsiders. The importance of personal contacts and the custom of offering gratuities persist, often to the frustration of foreign investors. The cost of doing business in Romania is significant, particularly for office rental, transportation, and telecommunication services. Most office supplies must be imported. The lack of an efficient, modern payments system delays transactions within Romania. Payments must generally be made in cash. The capital requirements for foreign investors are not onerous, but income taxes are steep. Foreign companies investing over $50 million qualify for certain tax exemptions. There is a 60 percent marginal tax rate on all salary income above $400 per month. In addition, Western concepts of service are not yet fully rooted. Many foreigners express concern that medical care available to the expatriate community is below Western standards.

There are few investment barriers 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 may lease land but under the constitution are prohibited from owning land. Joint ventures must be approved by the government. Extensive documentation is necessary, but has not impeded the formation of such ventures. The Romanian Development Agency attempts to match foreign investors with Romanian partners.

Since 1990, Romania has registered over 48,000 commercial companies with foreign capital participation. The total value of foreign investment reached $1.55 billion in October 1995. The overwhelming majority of this investment is small scale; 99 percent of the foreign investors together account for only 30 percent of the total capital investment. U.S. investments are increasing in value and number and range in scale from multi-million dollar projects to small investments valued at a few hundred dollars. In October 1995, U.S. investments in Romania were estimated at $100.6 million, putting U.S. in sixth place among sources of foreign investment. The largest U.S investors are Coca-Cola, Amoco, Colgate-Palmolive, Kraft/Jacobs Suchard, and Procter and Gamble.

6. Export Subsidies Policies

The Romanian government does not provide export subsidies but attempts to make exporting attractive to Romanian companies. For example, the government provides for the total or partial refund of import duties on goods that are processed for export or are incorporated into exported products. The Romanian Export-Import Bank also promotes trade of goods produced in Romania.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. For example, the government has, on occasion, banned the export of some commodities 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 intention to subscribe eventually to both.

7. Protection of U.S. Intellectual Property

Romania has made significant progress in the protection of intellectual property rights (IPR) since the end of the Communist era. New patent and trademark laws have been enacted. Copyright legislation was approved by the Romanian Senate in September 1995 and is expected to be enacted in the winter of 1995–6. The Romanians have attempted to model their IPR legislation on the basis of accepted international standards.

The lack of adequate and effective copyright protection has caused some American firms to be reluctant to invest or to market their products in Romania. Pirated copies of audio and video cassette recordings are inexpensive and sold openly. Some are apparently produced locally, but many appear to be imported. There is no evidence that pirated goods are being produced in Romania for export.

8. Worker Rights

a. *The Right of Association.*—All workers, except public employees, police, and military personnel, have the right to associate freely, to engage in collective bargaining, and to form and to join labor unions without prior authorization. There are

legal limitations on the right to strike only in industries such as defense, health care, transportation, and telecommunications, which the government considers critical to the public interest. No worker may 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. The majority of Romanian workers are members of about 18 nationwide trade union confederations and smaller independent trade unions.

Union members complain that unions must submit grievances to government-sponsored conciliation before initiating a strike and are frustrated with the Courts' propensity to declare illegal the major strikes on which they are asked to rule. Past studies have indicated that the labor legislation, adopted in 1991, falls short of international labor organization standards in several areas, including free election of union representatives, binding arbitration, and financial liability of strike organizers. Although the 1991 legislation is supportive of collective bargaining, the contracts that result are not always enforceable in a consistent manner.

The 1991 legislation stipulates that labor unions should be free from government or political party control, and the government has observed this in practice. Unions are free, however, to engage in political activity and have done so.

Labor unions may freely form or join federations and affiliate with international bodies. Two Romanian unions, the CNSLR-Fratia and the National Union Bloc, are affiliated with the International Confederation of Free Trade Unions. Another Romanian union, Alfa Cartel, is affiliated with the World Labor Confederation. Representatives of foreign and international organizations freely visit and advise Romanian trade unionists.

b. *The Right to Organize and Bargain Collectively.*—Workers have the right to bargain collectively under the 1991 legislation, but collective bargaining efforts are complicated by continued state control over most industrial enterprises and the absence of independent management representatives. Basic wage scales for employees of state owned enterprises are established through collective bargaining with the state. In addition, workers and pensioners receive salary increases several times a year that are indexed to prices increases.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 16, 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 Ministry of Labor and Social Protection has the authority to impose fines and close sections of factories to enforce compliance with the law, and it has enforced the law effectively.

e. *Acceptable Conditions of Work.*—Most wage scales are established through collective bargaining at the enterprise level. 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.

According to a 1995 report issued by the Government of Romania, women experience a higher rate of unemployment than men and earn lower average wages despite educational equality. The report proposed a number of measures to correct this imbalance.

The labor code provides for a standard workweek of 40 hours over five days, with overtime wages to be paid for weekend and holiday work, or work in excess of 40 hours. The code also includes a requirement for a 24-hour rest period in the workweek, although most workers receive two days off. Paid holidays range from 18 to 24 days annually, depending mainly on the employee's length of service. The law requires employers to pay additional benefits and allowances to workers engaged in dangerous or difficult occupations.

Some labor organizations press for healthier, safer working conditions on behalf of their members. The Ministry of Labor and Social Protection has established safety standards for most industries and is responsible for enforcing them. However, it lacks sufficient trained personnel for inspection and enforcement, and employers generally ignore the Ministry's recommendations. Although they have the right to refuse dangerous work assignments, workers seldom invoke this right in practice, appearing to value increased pay over a safe and healthful work environment. Neither the government nor industry, which is still over 90 percent state-owned, has the resources necessary to improve significantly the health and safety conditions in the workplace.

f. Rights in Sectors With U.S. Investment.—There is no information available 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–E above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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		49

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

RUSSIA

Key Economic Indicators [1]

[Billions of Rubles unless otherwise noted]

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1990 prices) [2]	418	364	349
Real GDP Growth (percent)	−9	−13	−4
GDP (at current prices) [2]	171,509	630,000	1,450,000
GDP by Sector:			
Manufacturing	60,890	209,790	549,550
Agriculture	14,578	36,540	84,100
Services	74,435	333,270	707,600
Real Per Capita GDP (rubles, 1990 prices)	2,817	2,456	2,358
Labor Force (000's)	74,972	74,590	74,100
Unemployment Rate (percent)	5.1	6.0	7.9
Money and Prices:			
Money Supply (M2) (annual percent growth)	416	185	95
Central Discount Rate [3 4]	210	180	170
Personal Savings Rate [4]	19.6	11.8 NA	
Consumer Price Index (annual percent growth)	843	203	133
Exchange Rate (ruble/US$) [4]	1,249	3,550	4,600
Balance of Payments and Trade (millions of U.S. dollars): [5]			
Total Exports (FOB)	44,400	51,400	60,000
Exports to U.S. (CV)	1,744	3,235	4,900
Total Imports (CIF)	34,900	39,500	50,000
Imports from U.S. (FAS)	2,967	2,579	2,700
Aid from U.S.	1,700	1,625	343

Key Economic Indicators[1]—Continued

[Billions of Rubles unless otherwise noted]

	1993	1994	1995
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[4,6]	83,700	94,200	118,500
Debt Service Payments (paid)	2,000	4,700	N/A
Gold and Foreign Exchange Reserves[7]	5,875	4,100	7,380
Merchandise Trade Balance	9,500	11,900	10,000
Balance with U.S.	−1,223	656	2,200

[1]Figures are from the Russian Statistical Committee (Roskomstat) and U.S. Embassy estimates except where noted.
[2]GDP at factor cost. The rapid depreciation of the ruble over the past four years makes it meaningless to delineate these data in dollar terms.
[3]Expressed as twelve times the prevailing monthly interest rate at the end of period.
[4]End of period.
[5]Data on trade with the U.S. are from the U.S. Department of Commerce. All 1995 data are U.S. Embassy projections. Does not include trade with the independent states of the former Soviet Union.
[6]End of year except 1995 datum is for July 1, 1995 and includes reconciled debt to former COMECON states valued at $17.1 billion.
[7]End of year except 1995 datum is for June 30, 1995.

1. General Policy Framework

After three years of stop-and-go attempts at economic reform, the Government and Central Bank of Russia embarked on a bold stabilization program in 1995 consisting of a tight budget, gradual lowering of inflation through non-inflationary financing of the budget deficit, and further trade and energy sector liberalization. The government's stabilization program formed the basis of a $6.5 billion standby agreement with the IMF. In November 1995, the government was negotiating with the IMF a follow-on Extended Fund Facility program for 1996–98 to continue the process of structural reform.

Following four years of large annual declines in GDP and industrial production, the Russian economy began showing signs of stabilization in 1995. Both real GDP and real industrial production outperformed all forecasts. The slide in GDP virtually stopped in the second half of 1995. For the year as a whole, real GDP was expected to decline just three to four percent after registering a 13 percent decline in 1994. The stabilization trend in real industrial output has been evident since late 1994. By late 1995 both semi-processed and processed manufactures were showing signs of recovery, although performance was uneven among sectors and regions.

Responding to poor revenue performance, the Russian government compressed spending sharply in order to maintain a federal budget deficit of not more than six percent of GDP in 1995. Through October 1995, Russia had met all its monthly targets under the IMF program and was on track to achieve an annual budget deficit well below program targets. The 1995 budget deficit was financed largely through sales of domestic government securities and borrowing from international financial institutions but some central bank financing was also required. Tight monetary policy and the use of non-inflationary financing for the federal deficit drove the fight against inflation. Monthly inflation dropped from a peak of 18 percent in January to a range of four to five percent beginning in August.

Russia made progress in 1995 in its efforts to accede to the World Trade Organization. The European Union's Partnership and Cooperation Agreement (PCA) signed with Russia in 1994 awaits ratification by several EU member states and Russia, although the Interim Agreement covering the trade-related aspects of the PCA was expected to enter into force in December 1995. The U.S.-Russian Trade Agreement of June 1990 provides mutual most-favored-nation status. The U.S.-Russian Bilateral Tax Treaty became effective in January 1994. In addition, the U.S.-Russian Bilateral Investment Treaty, signed in June 1992 and ratified by the U.S. Senate, awaits ratification by the Russian legislature.

Concerning trade with the states of the former Soviet Union, Russia is pressing for a customs union among the Commonwealth of Independent States. In 1995, the customs union consisted of Russia, Belarus, and Kazakhstan with Uzbekistan, Kyrgyzstan and Tajikistan having indicated in November intentions to join. The term "customs union" is a bit of a misnomer, since entry signifies more the start of the process of harmonizing legislation and regulations than its achievement. The levels of integration differ among the customs union members with the relationship between Russia and Belarus the deepest.

2. Exchange Rate Policies

A unified exchange rate was introduced in Russia in 1992. The official exchange rate is determined by the outcome of daily auctions on the Moscow Interbank Currency Exchange (MICEX). The Central Bank closely monitors trading on and off the exchange, and intervenes as necessary to smooth the movement of the ruble. In late April 1995, the ruble's steady trend towards depreciation reversed itself, and the ruble appreciated 13 percent against the dollar between April 29 and the end of June. On July 6, the government and Central Bank introduced a currency "corridor," under which the ruble would be allowed to move between 4,300–4,900 rubles to the dollar. The corridor, originally scheduled to expire on October 1, 1995, was subsequently extended until the end of 1995. From the introduction of the corridor through the end of November, the ruble hovered around 4,450–4,600 rubles to the dollar.

For all exports except oil and gas, exporters are required to convert 50 percent of export earnings into rubles at the prevailing exchange 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. The Central Bank and State Customs Committee issued an instruction in mid-November extending this system of "passports" to import transactions beginning in January 1996. Purchases of property, transfers of capital abroad, and foreign borrowing of resident legal entities require Central Bank authorization. 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 may maintain domestic hard currency accounts.

3. Structural Policies

The year 1995 was a period of consolidation of economic liberalization measures. Key legislative achievements during the year included passage of laws covering securities, the central bank, commercial banks, and state regulation of foreign trade activity. The government became stricter in subjecting state-owned firms to bankruptcy proceedings and in penalizing firms for arrears on taxes and on payments to suppliers. In mid-1995, a law on natural monopolies was enacted, giving the government the means to regulate utility prices including energy, transportation, and oil and gas export pipelines. Prior to this implementation of the law, utility costs had been rising far faster than inflation, though sometimes from a low base. There were no major attempts to reimpose controls on other prices. Little progress was made for most of 1995 on deepening privatization. In the fall of 1995, however, the government began to secure loans for the federal budget using as collateral retained share holdings in some of Russia's most well-known firms.

A new Tax Code is in preparation to replace the obsolete collection of tax laws passed in 1991 and 1992. Taxes are confusing, constantly revised and inconsistently applied. Currently all major taxes are collected by a single federal agency and divided between the central government and regions according to a revenue-sharing formula, although much ad hoc bargaining still occurs. A 20-percent value-added tax (VAT) plus a similarly applied 1.5 percent special tax is imposed on Russian and foreign firms conducting commercial activities in country. Corporate profits are taxed at 35 percent, with banks and other entities taxed at 38 percent. Personal income tax rates range from 12 percent to 30 percent. Wages are subject to payroll taxes totalling 39 percent. An additional 38-percent tax is levied on "excess wages" (above the equivalent of $74 per month as of November 1995), but this is scheduled to expire in January 1996. Russian-sourced "passive" income earned by foreigners is subject to a 15-percent withholding tax on dividends and interest and a 20-percent tax on royalties and rents.

Import customs duties have been raised markedly several times from 1992 through mid-1995. The last round of which included a "rationalization" element that established duties of 5 to 30 percent on most goods. Import duties of some types of capital equipment are considered prohibitive, and the combination of import duties, VAT and other taxes may raise prices of imported products to levels where demand is very limited. Excise taxes that are applied to a short list of goods continue to be assessed differently for imported and domestically produced goods, although an April 1994 decree requires that the two systems be unified by the start of 1996. Export duties, introduced in 1992 because of vast differentials between domestic and international prices, have been lowered on several occasions and applied to fewer commodities as the differentials disappeared. By the end of 1995, export duties were limited to crude oil, fuel oil, natural gas and certain industrial metals. Special agreements with certain CIS countries further reduce or have provision to waive

these export duties. Several oil production joint ventures have been exempted from export duties for their own production. Since the abolition of export quotas and licensing, all export contracts for "strategically important" commodities have required registration with the Ministry of Foreign Economic Relations.

4. Debt Management Policies

Russia's strong economic stabilization effort allowed for progress in managing and reorganizing the stock of debt inherited from the Soviet Union. The Russian government's foreign hard currency debt obligations total approximately $120 billion, of which roughly half is owed to creditor governments, one-third to commercial banks, and the remainder to other commercial creditors and international organizations.

In mid-1995, the Paris Club of official creditors provided Russia with some $7 billion in relief on payments due during the year. The Paris Club also pledged to open discussions before the end of 1995 on a longer-term rescheduling. In November, Russia and its commercial bank creditors reached preliminary agreement on a 25-year rescheduling of the stock of bank debt. Russia is not a heavily indebted country in terms of its debt service or its debt-to-GDP ratios.

Russia became a member of the IMF in 1992 and made a first credit tranche drawing of $1 billion. In 1993 and 1994, Russia drew approximately $3 billion under the Systemic Transformation Facility. In 1995, the IMF approved a Stand-by Agreement totalling $6.5 billion, and in late 1995, a three-year Extended Fund Facility was under negotiation.

5. Significant Barriers to U.S. Exports

The June 1993 Customs Code standardizes Russian customs procedures in accordance with international norms. However, customs regulations change frequently, often without sufficient prior notice, are subject to arbitrary application and can be quite burdensome. There is no gazette similar to the U.S. Federal Register covering changes in standards and border restrictions.

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 imported food items are subject to food quality and safety standards and require this certificate for each shipment, as well as additional sanitary and phytosanitary certificates as necessary. Manufactured items can receive certificates allowing import of a good over a three-year period. 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 pledged cooperation on improving and simplifying certification, testing and quality assurance of U.S. and Russian products in our respective 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.

Many service industries still lack 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 their 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. The government periodically purchases grain and other agricultural products, though at more restricted levels than in the past. The 1996 draft budget contains provisions for state imports of up to $1 billion in medicines.

6. Export Subsidies Policies

The 1996 budget has no provisions for export subsidies. Russian officials, however, have said Russia is likely to introduce, possibly in 1996, an insurance and export credit guarantee program for manufactured goods. The government does provide subsidies for production of agricultural goods (which tend not to be exported) and for the production of coal which comprises about one percent of Russia's total exports. The state maintains a monopoly on the sale of precious and several rare-earth metals and coordinates sales of diamonds. The government also conducts centralized purchases for export of military technology, coordinated through a single state organization, Rosvooruzheniye.

7. Protection of U.S. Intellectual Property

In 1992–93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights 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, toys, foods and beverages. This lack of enforcement resulted in Russia being placed on the Special 301 Watch List in 1995.

The Patent Law, which accords with the norms of the World Intellectual Property Organization, includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. One must wait four years before applying for a compulsory license. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins and provides for automatic recognition of Soviet trademarks upon presentation of the Soviet certificate of registration.

The Law on Copyright and Associated Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years 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 acknowledged that it will continue to fulfill the obligations of the former Soviet Union under the Universal Copyright Convention, the Paris Convention, the Patent Cooperation Treaty, and the Madrid Agreement. In March 1995 Russia acceded to the Berne Convention and the Geneva Phonograms Convention. Under the U.S.-Russian Bilateral Investment Treaty (not yet ratified by the Russian parliament) Russia has undertaken to protect investors' intellectual property rights. The Bilateral Trade Agreement stipulates protection of the normal range of literary, scientific and artistic works through legislation and enforcement. The Russian Criminal and Civil Codes are still under revision. The drafts include sections pertaining to intellectual property rights, strengthen penalties, and provide for the establishment of specialized courts, particularly a Patent Court, with trained and experienced judges and attorneys, and trained police and customs officers.

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. 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. 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 social benefit programs.

The right to strike, also guaranteed by Russian law, is likewise restricted in practice. The Labor Code provides several loopholes for authorities, prohibiting "political" strikes or strikes that pose a threat to peoples' lives or health or that might lead to "severe consequences." This ambiguous language has meant the de facto prohibition of strikes in such key sectors of the economy as the defense industry, communications, civil aviation, and railroads. The law also requires a multi-stage process of notification and negotiation before a strike can take place, giving employers ample time to coerce, intimidate or buy off workers contemplating a strike. The Russian Government makes little effort to protect trade union leaders and strikers from retribution, and the ambiguity of Russian labor laws provides employers with opportunities to punish trade union members. There have been numerous incidents 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.

b. *The Right to Organize and Bargain Collectively.*—Collective bargaining is protected by Russian law but is not practiced widely. 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 forceful in demanding

genuine collective bargaining. In several sectors of the economy such as coal and transport, wages, benefits and general conditions of work are established by industry-wide tariff agreements, which are set in talks between trade unions, management and the government. This arrangement reinforces the counterproductive tendency among Russian workers to rely on the government to establish wages and other workplace conditions.

c. *Prohibition of Forced or Compulsory Labor.*—Russian law prohibits compulsory labor. While there are no reports of the widespread occurrence of such practice, some observers believe government enforcement of the law is ineffective.

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 by the Ministries of Labor and Social Protection is ineffective; growth in entrepreneurial manufacturing and trading, and in the informal economy, has led to the employment of more children under the age of 14 in recent years.

e. *Acceptable Conditions of Work.*—The minimum wage as of November 1, 1995, was 57,750 rubles per month (roughly $12–$13 at the current exchange rate) with legally-mandated raises of 2,750 rubles per month through January 1, 1996. While this figure clearly does not constitute a living wage under current conditions, very few people receive only the official minimum. At the same time, much of the Russian population continues to reside in low rent or subsidized housing and receive various social services from enterprises or municipalities. The official minimum wage is primarily a benchmark figure for calculating university stipends, old age pensions, civil service salaries and a host of other social benefits.

Non-payment of wages is the primary reason for the majority of strikes in contemporary Russia. Wage arrears are a potential cause of social unrest over the next few years and constitute an issue about which the Russian government is concerned. Russian labor experts posit that prolonged and persistent wage arrears amount to a violation of ILO standards on acceptable conditions of work.

The Labor Code provides for a standard workweek of 40 hours, which includes at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. Russian law establishes minimum conditions for workplace safety and worker health, but these standards are not effectively enforced.

f. *Rights in Sectors With U.S. Investment.*—Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food) does not differ markedly from other sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		303
Total Manufacturing		14
Food & Kindred Products	(1)	
Chemicals and Allied Products	−1	
Metals, Primary & Fabricated	−1	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	−1	
Transportation Equipment	(2)	
Other Manufacturing	9	
Wholesale Trade		2
Banking		(1)
Finance/Insurance/Real Estate		0
Services		6
Other Industries		(1)
TOTAL ALL INDUSTRIES		358

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

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

SERBIA AND MONTENEGRO

Serbia and Montenegro was until November 1995 subject to UN economic sanctions which affected virtually every aspect of its economy. Following the initialing of the Dayton accords, the UN Security Council voted to suspend sanctions. The United States in turn suspended its sanctions on January 16, 1996. American companies are now free to engage in commercial activities with Serbia and Montenegro, though many assets of the former Yugoslavia will remain frozen in U.S. banks until successor state issues have been resolved.

The international sanctions regime, in place for three years, crippled the Serbian economy. During 1994, hyperinflation on the order of the Weimar Republic brought a virtual halt to economic activity within the country. Dragoslav Avramovic, appointed Central Bank Governor in 1994, introduced a stabilization program that was effective the first half of the year principally because he was able to curb monetary emissions.

The Central Bank's success notwithstanding, however, signs of serious economic deterioration crept back in 1995. The inflation rate exceeded 100 percent, industrial output declined by over ten percent, and the Central Bank's "new" dinar had to be devalued in December. Structural weaknesses in the economy became more acute. With the banking sector in disarray, and capital investment and the savings rate virtually nil, stabilization of the economy has again become problematic. Further attempts to stabilize the economy without fundamentally restructuring the Socialist-era economy appear to hold little promise. Recently, Avramovic's calls for privatization and other reforms continue to be resisted by hard-line socialists within the ruling party.

The United States currently maintains an "outer wall" of sanctions against Serbia and Montenegro. Under this policy, Serbian access to international lending and membership in most international organizations is conditioned on progress on a number of political and humanitarian issues associated with the peace process. Access to international financial institutions is considered to be a prerequisite for Serbia and Montenegro's rapid financial normalization.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

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

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

SLOVAK REPUBLIC

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:[1]			
Real GDP (1984 prices)	5,271	5,687	6,510
Real GDP Growth (percent)	−4.1	4.8	6.1
GDP (current prices)	10,318	12,431	15,600
GDP by Sector:[2]			
Agriculture	588	915	839
Industry	4,045	3,811	4,920
Services	5,376	6,816	8,530
Other	310	890	1,310
Real per capita GDP	995	1,073	1,228
Labor Force (million)[3]	2.347	2.158	2.538
Unemployment Rate (percent)[3]	14.0	14.6	12.8
Money and Prices:			
Money Supply (M2)[4]	7,500	9,200	10,770
Base Interest Rate (percent)[3]	12.0	12.0	9.7
Personal Saving Rate (percent)	3.3	2.7	N/A
Retail Inflation (percent)[3]	23.2	13.4	7.9
Wholesale Inflation (percent)[3]	17.2	10.0	8.9
Consumer Price Index[3]	23.2	13.4	7.9
Exchange Rate (SK/US$):			
Official[3]	32.97	32.04	29.43
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:[4]			
Total Exports FOB[4]	5,086	6,679	8,400
Exports to U.S.[4]	60.5	108.8	117.3
Total Imports CIF[4]	5,914	6,610	8,267
Imports from U.S.[4]	111.2	187.9	189.3
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	3,682	4,285	[5]4,900
Debt Service Payment (paid)[4]	140	375	415
Gold and Foreign Exchange Reserves	1,402	3,096	[5]4,203
Trade Balance[4]	−828	69	133
Balance with U.S.[4]	−51	−79	−72

[1] GDP figures for 1995 are calculated from six month figures.
[2] Industry includes energy, manufacturing, and construction; Services include rents, financial and government services; other is residual.
[3] 1995 figures are estimates based on data available in October 1995.
[4] 1995 figures are estimates based on data available in September 1995.
[5] Through July 1995.

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. All former federal laws were adopted in Slovakia in early 1993, but are gradually being revised. 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 some gaps remain.

In December 1994, Prime Minister Vladimir Meciar, leader of the Movement for a Democratic Slovakia (HZDS) formed a coalition government with the Slovak National Party (SNS) and the Association of Workers of Slovakia (ZRS). While macroeconomic performance was strong during the government's first year in office, politi-

cal issues involving disagreements between the President and Prime Minister, privatization, and the role of the opposition have dominated the government's agenda.

Slovakia has expressed interest in joining both the European Union (EU) and the Organization for Economic Cooperation and Development (OECD). Slovakia signed an association agreement with the EU in October 1993 and applied for EU membership in June 1995. The government has signalled its desire to join the OECD by February 1997. The government adheres to EU standards wherever possible in modernizing infrastructure and amending economic legislation. Slovakia advertising itself as a bridge between East and West for business, emphasizing its central location, skilled and low-cost labor force, industrial tradition, and familiarity with its eastern neighbors.

The Slovak economy enjoyed favorable results in 1994–95 after several years of decline. The near-term macroeconomic outlook is good. Monetary and fiscal discipline have been the keys to success in this area. The government deficit in 1995 is expected to amount to only 1.5 percent of GDP. Following GDP growth rates of 4.8 percent in 1994 and over six percent in 1995, Slovakia's real GDP in 1995 was expected to reach a level equivalent to 84 percent of 1989 GDP in 1995. GDP growth is being led by strong export performance, increased domestic consumption, and, to a lesser degree, a rise in domestic investment. Exports rose 26 percent to $8.4 billion in 1995, while imports rose 25 percent to $8.3 billion, generating a trade surplus of $133 million. The strongest export sectors were machinery and transport equipment, chemicals, and intermediate manufactured products. Slovakia's leading imports included machinery and transport equipment, fuels and oils, and intermediate manufactured products.

Slovakia has re-oriented its trade from former east bloc countries to the EU (approximately 35 percent of total Slovak trade is with EU member countries), although for historical reasons trade with the Czech Republic (approximately 32 percent of total trade) is still of great importance.

Following a series of sharp devaluations from 1991–93, the Slovak crown, which was pegged to the U.S. dollar and the German mark, remained stable in 1994. The outlook is for continued stability. Full current-account convertibility of the Slovak currency was achieved in October 1995. Slovakia has a strong central bank that enjoys excellent relations with international financial institutions and has carefully monitored development of the country's monetary and banking systems. During the first seven months of 1995, Slovakia's total foreign exchange reserves amounted to $4.2 billion, while foreign debt was a relatively low $4.9 billion.

Privatization of small and retail enterprises is complete, and these sectors appears to be thriving. The first wave of large privatization was completed in September 1993, but changes of government and sharply differing approaches led to repeated changes and delays in the privatization of the remaining large enterprises. In mid-1995, the government decided to cancel coupon privatization and replace it with a bond scheme, relying on a direct-sale approach to privatization. The government also declared a sizable portion of large enterprises (mainly in the defense, transport, and energy sectors) to be "strategic" and thus not eligible for privatization. Even so, a large number of state-owned firms have been sold directly or by public tender since February 1995. Domestic buyers are given preference under the current privatization program, which is scheduled to be completed by mid-1996.

Foreign direct investment reached a modest total of $661 million by the end of 1995. Many potential investors appear to have been deterred by political uncertainty and by the perception of lukewarm government interest in foreign investment. Difficulties in obtaining accurate information and dealing with evolving bureaucracies and laws have also discouraged foreign investment.

2. Exchange Rate Policies

After the division of the CSFR, an initial monetary union was dissolved and the Czech and Slovak currencies separated in February 1993. Czechoslovak banknotes with Slovak stamps have been completely replaced by newly-printed notes. Since July 1994 the Slovak crown (SK) has been pegged to the Deutsche mark (60 percent) and the U.S. dollar (40 percent) under the supervision of the National Bank of Slovakia. The crown was devalued by ten percent in July 1993, but has since remained stable at approximately SK 30 to the dollar.

The Slovak crown reached full current account convertibility on October 1, 1995 and on the same day achieved Article VIII status with the IMF. The government intends to move toward full convertibility by the year 2000. Prime Minister Meciar's government agreed to the Czech Republic's withdrawal from the Czech-Slovak bilateral clearing payment agreement on October 1, 1995; payments between the two countries are now based on a market exchange rate between the Slovak and Czech crowns. Individuals may maintain accounts denominated in hard currency in Slo-

vakia and are entitled to purchase SK 60,000 (approximately $2,000) worth of hard currency per year. They may also take out foreign loans for non-business purposes. Companies registered in Slovakia may earn hard currency, but must deposit it in Slovak crown-denominated accounts. Slovaks may purchase hard currency for business purposes up to a limit of SK 60,000. They may keep their initial investment, gifts, grants and inheritance in hard currency and may repatriate 100 percent of their profits in hard currency.

3. Structural Policies

Privatization: According to official statistics, the private sector's share of GDP has risen above 65 percent. Both small- and large-scale privatization began in 1991, prior to the breakup of the CSFR. Approximately 9,500 small enterprises, including 6,500 retail shops, have been privatized, and privatization of urban housing has begun. The first wave of large-scale privatization ended in September 1993, with 703 enterprises valued at $5.3 billion privatized. The second wave of privatization has accelerated since June 1995 when the Meciar government canceled coupon privatization in favor of a direct-sale approach that includes the provision of SK 10,000 bonds to citizens who exchanged their coupon books. Direct sales and management/employee buyouts are now the preferred method of privatization. Bonds may be used to purchase of shares in privatized state enterprises, government-owned apartments, and for supplementary insurance payments. From February through November 1995, the National Property Fund sold all or parts of 342 state enterprises valued at $1.73 billion for a total price of $1.23 billion. Prime Minister Meciar has set a goal to complete the privatization of the state sector by mid-1996, except for enterprises retained by the state for strategic reasons.

Taxes: Slovakia introduced a new tax system in January 1993, which has since been modified. Taxes are collected according to the calendar year and consist of a 23 percent Value Added Tax (VAT) on most items; a 6 percent VAT on basic foodstuffs and essentials; an excise tax; a personal income tax of 15–42 percent; a corporate income tax of 40 percent; and taxes on real estate, auto registration, inheritance, gifts, etc. The VAT accounts for about 40 percent of central government revenue. Measures are being taken to improve tax 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. A U.S. treaty on dual-taxation with Slovakia entered into force in early 1994.

Price liberalization and subsidies: Nearly all (96 percent) Slovak price controls have been eliminated. While controls on food, fuels, energy, heat, and other products were expected to be phased out by December 1995, political pressures have delayed completion. Government-granted monopoly rights no longer exist. Direct subsidies to enterprises have fallen to about five percent of GDP, although some observers feel that significant indirect subsidies also exist, e.g. the rollover of bank debt, and other measures.

Bankruptcy: Slovakia adopted the 1991 CSFR law on bankruptcy and made additional amendments in June 1993. Under the law, a board of creditors with a maximum of seven members may be formed upon court recommendation to take control of enterprises in bankruptcy proceedings. The board is given three months to work out a recovery program and submit the plan to the court. 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. A separate procedure, called liquidation, applies to state-owned industries. Approximately 200 companies have gone through the liquidation process. The National Property Fund as an owner of debtor companies is exempt from the bankruptcy law. To date, the process has been extremely cumbersome. Of more than 1,500 applications filed, fewer than 100 have been "adjudicated" (proceeded beyond the mandatory recovery program phase) and none has reached final resolution. The Justice Ministry recently proposed amendments to the bankruptcy law designed to streamline the procedure, eliminate the mandatory recovery program period, and eliminate provisions that are preferential to domestic creditors. The amendments are to be presented to the parliament for consideration in early 1996.

4. Debt Management Policies

As of July 1995, Slovakia's foreign debt amounted to $4.9 billion, eighty percent of which was medium- and long-term. Gross foreign debt was equivalent to 35 percent of GDP at the end of 1993 and 37 percent of GDP at the end of 1994. About 47 percent of Slovakia's foreign debt is owed by the government and the National Bank. In 1995, foreign debt service amounted to seven percent of Slovakia's export

earnings. Debt service payments by the government and the National Bank during the period January-September 1995 were $415 million.

Loan Guarantees: The Slovak government's tight rein on the government budget limited the availability of state loan guarantees in 1995 and 1996. Under a proposed amendment to Slovak regulations, total state guarantees in a given year would not be permitted to exceed 15 percent of government revenues. State guarantees in 1995 totalled SK 23 billion ($767 million, or 15.7 percent of 1995 government revenues).

Bad Debts: The quality of commercial bank portfolios is a serious problem. The National Bank estimates that nearly 50 percent of loans extended by Slovak banks are non-performing or doubtful. Much of the problem dates back to the Communist era. In 1991, Czechoslovakia established a Consolidation Bank to centralize debts and liabilities of the banking system. Subsequently, the federal National Property Fund issued bonds to aid debt writedowns and bank recapitalization. The National Bank of Slovakia is taking action to require banks to classify their bad loans, build reserves against such loans, and harmonize banking regulations with those of the European Union. The government also intends to restructure doubtful bank loan portfolios with the help of tax incentives to be included in an amendment to the existing bank law. The goal is to reform bank portfolios by 1998.

Adjustment Programs: In May 1993, the Slovak Republic drew the third tranche of a Structural Adjustment Loan from the World Bank in the total amount of $39.8 million. The World Bank approved an Economic Recovery Loan in November 1993 in the amount of $80 million for restructuring the economy and balance of payments support. In July 1993 the IMF approved a Systemic Transformation Facility Loan amounting to $89 million. An IMF advisor is resident in Bratislava. In 1994, two tranches of stand-by credit from the IMF were withdrawn in total amount of $46.8 million. In 1995 the IMF and Slovakia were unable to agree on a precautionary stand-by agreement, although it had been determined early in 1995 that no further drawdowns were required at this time. In 1995, additional sources of external financing including: an Economic Recovery Loan from the Exim Bank of Japan in the amount of 5 billion yen ($48.1 million); the second and third tranches of a Two Step Loan from Exim Bank of Japan for a total of 2 billion yen ($19.2 million); and the third, fourth and fifth tranches of a $9.8 million Apex Global Loan from the European Investment Bank.

5. Significant Barriers to U.S. Exports

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. For the remaining items, which account for about 10 percent of cases, a favorable decision of the Ministry of Economy is required. Obtaining a license may be more difficult than for general category goods, depending on factors involved. Items in the "specific" category fall into four groups: (a) items formerly controlled by COCOM, (b) MTCR (Missile Technology Control Regulation), (c) NSG (Nuclear Supplier Group), and (d) AG (Australia Group) which includes chemical and biological products. In considering license applications for "specific" category products, the Ministry of Economy weighs environmental and health factors as well as the impact on domestic producers.

Services: Permission from the National Bank of Slovakia 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 to offer brokerage services. Foreign entities may join existing stock and options exchanges, but there is no provision 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 as a limited liability, professional corporation. Special permission is not required to offer travel or ticket services or air courier services.

Standards, Testing, Labelling, and Certification: Slovak legislation in this area closely follows laws in the EU. Slovakia has adopted EU standards in its national standard system. The Slovak office of Standards, Metrology and Testing undertakes both compulsory and voluntary testing of products at 20 test centers. Testing is compulsory for products in the "regulated" sphere, defined as those which may pose threats to health, life, safety, and the environment. Regulated products consist mainly of foodstuffs, kitchen devices, medicines, electrical equipment, engineering products, agricultural machinery, plastics, paints, polishes, cosmetics, and sporting

goods. Voluntary testing may be done at the request of the producer or importer wishing to obtain a certificate.

Slovakia became a full member of both the international IECEE CB system for testing electrical safety and the European CENELEC Certification Agreement (CCA) in 1995. Slovakia recognizes OECD certificates and CB and CCA certificates for issuing a national certificate for electric products. Slovakia is very active in the implementation of the EU directive for safety of machinery and packaging.

Investment: 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 in the economy, no barriers to repatriation of profits or capital, no restrictions on downstream services, and no indication of discriminatory treatment based on nationality. However, some foreign investors believe government investment incentives do not provide sufficiently for accelerated depreciation. The government has made clear that certain sectors (e.g., defence and energy) will not be privatized in the near term. It is still uncertain whether the government will pursue employment or industrial development policies that could adversely affect the interests of foreign investors. The government has stated that, in certain instances, the potential for local job creation will weigh heavily in judging bids for newly-privatized enterprises.

Government Procurement Practices: While no "buy Slovak" law exists, the government is sensitive to the concerns of local producers whose existence is threatened by economic reform and the emergence of efficient competitors.

Tax Concerns: Foreign investors have expressed concerns over several tax issues in Slovakia. Under current law, there is no provision for establishment of business information offices that would be exempt from normal tax and accounting requirements. Holding companies are subject to a 15 percent withholding tax on intra-group dividend payments. Since dividends are paid from after-tax profits, intra-group dividends are doubly taxed. Expatriate employees of Slovak entities are not exempt from relatively high social security and health insurance payments, even though they may remain covered under their home-country system.

Tariffs: Slovakia's tariff schedule was inherited from the former Czechoslovakia. Rates are relatively low, averaging about six percent. An import surcharge of 10 percent on consumer goods was introduced in March 1994, but is expected to be eliminated by June 1996. Imports from developing countries enjoy GSP preference.

Customs procedures: Customs is not intrinsically complicated or burdensome. The basic form required for imports is the "unified customs declaration" which conforms to EU standards. Occasional problems have arisen, usually due to importer unfamiliarity with Slovak procedures.

As one of two successor states to Czechoslovakia, the Slovak Republic is a member of the GATT, and bases its foreign trade policy on WTO and GATT principles. Slovakia participates in the Multi-Fiber Arrangement, the Technical Trade Barriers Agreement, the Licensing Procedures Agreement, and the Agreements on GATT Articles VI and VII. The Slovak parliament ratified the Uruguay Round agreement in December 1994.

6. Export Subsidies Policies

Slovakia is a member of the WTO Subsidies Code. There are currently no direct government subsidies for Slovak exports, although indirect subsidies exist in areas such as housing, agriculture and energy. The Slovak government provides export enhancement programs in the form of financing and insuring exports and covers half of the cost of Slovak firms participating in international fairs. A new act on the financing and insuring of exports is expected to be proposed by the government in 1996. It is anticipated that the government will adopt measures to provide tax credits to exporters within two to three years.

7. Protection of U.S. Intellectual Property

The Slovak Republic is signatory to the same conventions on intellectual property rights (IPR) as the former Czechoslovakia, e.g. the Berne, Paris, Stockholm, Madrid, Nice, Lisbon, Locarno, Washington, Strasbourg, and Budapest conventions. Slovak IPR laws and regulations are identical to those of the former Czechoslovakia, and are generally compatible with Western European legislation. A new law on administrative fees was passed in 1993. Like the Czech Republic, Slovakia is a successor to Czechoslovakia in the World Intellectual Property Organization (WIPO). There are no known IPR disputes involving U.S. interests. However, Slovakia's trademark legislation is based on "first to register" rather than "first to use" principle, which poses potential difficulties for foreign investors. On a related issue, the Slovak parliament recently adopted an audiovisual law that requires 40 percent of all films

distributed in Slovakia to be dubbed into Slovak. There is concern that this law could limit the access of U.S. films to the Slovak market.

8. Worker Rights

a. *The Right of Association.*—The constitution provides for the right to form and join unions, except in the armed forces. In 1995, according to one reliable, independent source, approximately 50 percent of the workforce was organized. Official sources state that the figure was closer to 75 percent. Unions are independent of the government and political parties. There are no restrictions on the right to strike, but there were no reports of strikes during the year.

b. *The Right to Organize and Bargain Collectively.*—The Collective Bargaining Law provides for collective bargaining, which is freely practiced throughout the country. Employers and unions set wages in free negotiations. The Law on Citizens' Associations prohibits discrimination by employers against union members and organizers.

The Customs Act of 1992 regulates duty-free stores and export processing zones, of which there are several. Firms operating in such zones must comply with the labor code.

c. *Prohibition of Forced or Compulsory Labor.*—Both the constitution and the employment act prohibit forced or compulsory labor. There were no reports of violations.

d. *Minimum Age for Employment of Children.*—The law sets the minimum employment age at 15 years of age. Children must remain in school for 9 years, or until age 15. Workers under age 16 may not work more than 33 hours per week, may not be compensated on a piecework basis, may not work overtime or night shifts, and may not work underground or in specified conditions deemed dangerous to their health or safety. There were no reports of violations.

e. *Acceptable Conditions of Work.*—The minimum wage is $82 (SK 2,450) per month. The standard workweek mandated by the labor code is 42.5 hours, although collective bargaining agreements have achieved reductions in some cases.

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—1994

[Millions of U.S. dollars]

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	N/A	N/A	N/A
Real GDP Growth (percent)[2]	1.3	5.5	5
GDP (at current prices)	12,672	14,463	15,100
GDP by Sector:			
Agriculture	563	648	680
Energy and Water	322	373	380
Manufacturing	3,870	4,128	4,300
Construction	521	616	700
Rents	1,421	1,240	1,600
Financial Services	443	504	740
Other Services	2,821	3,228	3,500
Govt. Health & Education	2,734	2,872	3,000
Net Exports of Goods and Services	50	728	200
Real Per Capita GDP ('85 BPS)	N/A	N/A	N/A
Labor Force (000s)	760	745	730
Unemployment Rate (percent)	9.1	9.0	8.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	2.5	1.4	1.3
Base Interest Rate[4]	18	16	10
Personal Saving Rate	30	24	15
Retail Inflation	32.3	18.3	10.2
Wholesale Inflation	21.6	17.5	9.5
Consumer Price Index	32	18.5	10.3
Exchange Rate (SIT/US$):			
Official	115	125	120
Parallel	117	115	120
Balance of Payments and Trade:			
Total Exports FOB[5]	6,083	6,828	8,740
Exports to U.S.	216	250	270
Total Imports CIF[5]	6,501	7,304	10,006
Imports from U.S.	188	197	280
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	1,873	2,258	2,700
Debt Service Payments (paid)	374	426	400
Gold and Foreign Exchange Reserves	1,566	2,764	3,400
Trade Balance	−154.2	−476	−900
Balance with U.S.	28	53	−10

[1] 1994 figures are all estimates based on available monthly data in October 1995.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.

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 lower employment and a somewhat lower standard of living. Positive effects at the macroeconomic level have appeared gradually during the second phase. However, Slovenia is still beginning some crucial elements of its economic transformation, in particular with regard to legal reform on property rights (privatization, sanctity of contract) and the development of a financial market.

The economic depression of 1991–1992 was primarily the result of a dramatic collapse in trade flows with other regions of the former Yugoslavia and a decrease in

trade with Eastern European markets. Similarly, the revival of the economy in 1993 was brought on by an increase in demand. Authorities eased a very restrictive monetary policy and introduced a Slovene currency. Contraction of markets in the former Yugoslavia stopped at a low level, but growth of exports to other countries took off. Domestic institutional reforms have also gained credibility.

After five years of decline, real GDP increased by one percent in 1993 and 5.5 percent in 1994. Positive growth continued in the first eight months of 1995. The trade mix began shifting, with imports of consumer goods declining and imports of semifinished materials rising, and the current account showed a modest surplus. As of August 1995, actual annual GDP growth was running at about four percent.

The Bank of Slovenia has successfully realized its primary goals of lowering inflation and maintaining stable growth in the money supply. The Bank is also attempting to lower interest rates, facilitate liquidity in commercial banks, and preserve the Slovene tolar's stability while allowing the exchange rate to adjust for inflation against the Deutschemark (DM). The most frequently used monetary instruments were liquidity loans offered against letters of credit as collateral. Both M1 and the primary money supply increased slightly in real terms in 1994, but the rate of real growth in the money supply slowed in 1995. The share of GIRO accounts and bank reserves is increasing at the expense of currency in circulation. Public financial assets held in banks are increasing very quickly, both in tolar and foreign exchange deposits.

2. Exchange Rate Policies

When launching its currency, the tolar, on October 8, 1991, Slovenia opted for a managed float against the DM, rather than a straight peg. A peg remains the long term objective. In real terms, the tolar appreciated strongly against the DM throughout 1992, by 3.3 percent in 1993, by 6.8 percent in 1994, and by an additional 2.5 percent in the first eight months of 1995. A high net inflow of foreign exchange from a surplus in the balance of payments accounts in part for this trend. The rise in the official Bank of Slovenia rate was mirrored in the exchange rate for business transactions, although at a slightly slower pace. The latter reflects actual movements of different money aggregates in the previous month and is used for administrative purposes only (customs, etc.). The tolar has been fully convertible since September 1, 1995.

3. Structural Policies

Slovenia has made significant progress across a broad spectrum of structural reforms. The government is undertaking a rehabilitation and reform of the financial sector and has begun privatizing "socially-owned capital" to transform the economy into a more market-oriented structure. Structural reforms in these two areas are interrelated. New prudential regulations (e.g., loan loss provisions, capital adequacy, limits for large borrowers) and accounting standards (e.g., nonaccrual of late interest) were put in place along with the establishment of Bank of Slovenia regulatory activities. The necessary legal framework is being 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.

The three most important banks are participating in a rehabilitation program. By the end of September 1995, over 950 (out of around 1,400) programs for privatization had been approved in a first round of approvals by the Privatization Agency. The programs approved represent about 40 percent of GDP and an equal percentage of total employment.

Changes were introduced in the personal income tax regime effective January 1, 1994. Tax holidays for corporate income tax have been eliminated. The depreciation schedule was liberalized, and the carryforward period for losses has been extended from one to five years. A new corporate income tax law, adopted in the fall of 1994, lowered the basic rate from 40 percent to 25 percent. Overall payroll tax rates were lowered considerably during 1993 and 1994—from 50.35 percent to 44.6 percent on average, as of the second quarter of 1995.

Prices are mainly market driven. Prices for electricity, gas and telecommunications are the only prices still controlled by the Government. Wage increases, however, are subject to Government efforts to suppress inflation.

4. Debt Management Policies

The public debt of the Republic of Slovenia is still relatively small. Slovenia's debt, including potential obligations stemming from the Yugoslav state succession negotiations, was estimated at 33 percent of GDP at the end of 1994. Loan servicing is running at 1.3 percent of GDP or 2.5 percent of total public receipts. According to the Monthly Bulletin of the Bank of Slovenia, Slovenia's foreign debt had reached $2.5 billion by the end of September 1995, with foreign exchange reserves standing

at nearly $3.2 billion. Slovenia's debt servicing ratio was 5.6 percent at the end of 1994.

Of the total debt, $2.46 billion represents long-term debt, $68 million short-term debt, and $5 million an IMF credit. These amounts only include official debt allocated to Slovene beneficiaries ("allocated debt"). The division of the "unallocated" Yugoslav debt (approximately $2.6 billion, excluding obligations to the IMF) has been subject to ongoing negotiations with commercial banks. Slovenia and a consortium of commercial banks reached agreement on the Slovene share of this "unallocated" Yugoslav debt in April 1995. The agreement must be accepted by two thirds of the interested commercial banks and ratified by the Slovene Parliament.

The government decided on January 13, 1994, that payments related to the following obligations would, until final agreement is concluded, be made to a fiduciary account of the Bank of Slovenia in the Dresdner Bank, Luxembourg:

—16.39 percent of interest due under the 1988 "Yugoslav New Financing Agreement" (NFA), for which the obligor is the National Bank of Yugoslavia;
—principal and interest due under the NFA, for active credits only, where the beneficiary is a Slovene entity;
—amounts on deposit with the Ljubljanska Banka under the 1988 Trade and Deposit Facility Agreement.

The balance of this account as of July 31, 1994, is $68 million.

The Republic of Slovenia became a member of the IMF in January, 1993. By decision of the IMF Executive Board in December 1992, Slovenia was declared a successor state with a percentage share of assets and liabilities of the former Yugoslavia. At the moment of succession, total liabilities were SDR 51 million, of which disbursed credits amounted to SDR 25.5 million.

5. Significant Barriers to U.S. Exports

Slovenia joined the GATT in October 1994 and became a founding member of the new World Trade Organization in early 1995.

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 remain to foreign investment in the country. First, any company incorporated in Slovenia must have a managing director or proxy 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. On the other hand, any company incorporated in Slovenia, regardless the origin of its founding capital, may buy real estate in Slovenia.

Limitations on transferability of tolar balances held by certain non-residents were ended in 1994. Slovenia's exchange system is now free of restrictions on payments and transfers for current international transactions.

6. Export Subsidies Policies

Slovenia has no special export subsidies policy. The Slovene economy was always export oriented. As a new country, Slovenia lacks certain tools to stimulate exports. In 1994, Slovenia adopted new legislation on tax exemptions on imported inputs. This measure should help domestic companies compete with foreign competition on a more equitable basis.

7. Protection of U.S. Intellectual Property

The Slovene Government attaches great importance to intellectual property rights and offers reasonably good protection. Two additional bills on intellectual property protection were adopted by the Parliament at the end of 1994. The Act on Protection of Topography of Semiconductors and Integrated Circuits harmonized national law and procedures with those used by the U.S. Patent Office. The Copyright and Related Rights Act is one of the most modern laws in Europe.

Some years ago, computer software and video piracy were problems in Slovenia. Fortunately, there were several successful court cases in the late 1980's, which helped remedy that situation. The first and best known case involved the American company Autodesk. Today, Slovenia's position is comparable to that of Western countries. This, however, does not mean that Slovenia has solved completely the software piracy problem, especially for operating system software for personal computers. New sales of personal computers (now being sold together with legal software) will gradually improve this situation.

Slovenia is a member of the World Intellectual Property Organization and a signatory of the principal intellectual property conventions, including the Berne Copyright Convention, the Paris Convention on Industrial Property (patents), the Madrid Arrangement on Internationally Registered Marks, the Patent Cooperation Treaty,

and the Locarno and Nice classification arrangements. By the end of 1995, Slovenia expected to fulfill all obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights .

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 old 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 the government and 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 trade union organizations.

b. *The Right to Organize and Bargain Collectively.*—Slovenia's economy is in transition from the command economy of the former 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 undergoing change. Formerly, the old 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 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 15. During the harvest, younger children do work on the farms. 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 $370 (gross wage) per month, with a 40 hour work week. The government 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 workers 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		−5
Food & Kindred Products	0	
Chemicals and Allied Products	−5	
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		−5

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

SPAIN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1986 prices)[2]	312.2	302.4	334.5
Real GDP Growth (percent)	−1.1	2.0	3.0
GDP (at current prices)[2]	478.1	483.1	546.4
GDP by Sector:			
Agriculture	16.5	16.8	18.8
Industry	108.8	110.8	129.4
Construction	39.1	38.6	45.5
Services	286.4	288.2	327.3
Net Exports of Goods and Services	92.5	107.6	136.1
Real Per Capita GDP('86 BPS, US$)	7,980	7,714	8,511
Labor Force (000s)	15,406	15,469	15,575
Unemployment Rate (percent)	23.9	23.9	22.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	−15.8	6.6	1.0
Base Interest Rate (percent)[3]	12.6	10.0	10.3
Personal Saving Rate (percent)	19.0	18.7	18.7
Retail Inflation	4.6	4.7	4.5
Wholesale Inflation	2.4	4.3	5.0
Consumer Price Index	105.0	110.0	115.0
Exchange Rate (Pta/US$): Official	127.4	133.9	125.0
Balance of Payments and Trade:			
Total Exports FOB[4]	53.7	73.6	85.0
Exports to U.S.	2.9	3.6	4.2
Total Imports CIF[4]	70.8	92.7	110.0
Imports from U.S.	5.6	6.8	8.0
External Public Debt	N/A	N/A	N/A
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Forex Reserves	45.3	44.5	45.0
Trade Balance[4]	−17.1	−19.1	−25.0
Balance with U.S.	−2.7	−3.2	−3.8

[1] 1995 Figures are all estimates based on available monthly data in June 1995.
[2] GDP at factor cost.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] Merchandise trade.

1. General Policy Framework

Along with most of continental Europe, Spain hit the bottom of the business cycle in 1993, when GDP declined one percent, and unemployment exceeded 24 percent according to official measurements. Devaluation of the peseta and the recovery in Spain's major European markets contributed to the beginning of an export-led recovery in 1994, when GDP increased by nearly two percent. Continued strength in net exports (including tourism) and strong private-sector investment are maintaining growth during 1995 at around three percent. The economy is generally expected to continue growing at about this rate in 1996, assuming that private consumption—which so far is nearly stagnant—joins the recovery.

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 in Spain since 1986.

Relatively high inflation rates continue to be a problem. Despite the recession and massive unemployment, Spanish inflation declined only to 4.3 percent by the end of 1994, well above the EU average, and is likely to stay close to that figure or slightly exceed it in 1995. Wage settlements in 1994, following modest reforms in the labor market, were quite moderate. In late 1995, however, the labor unions appear to be applying more pressure. Structural rigidities, including a lack of competition in certain sectors, especially services, contribute to inflationary pressure. Furthermore, the fiscal deficit, which exceeded 7 percent of GDP in 1994, probably will exceed 6 percent of GDP in 1995. The government is committed to bringing the deficit down to 4.4 percent of GDP in 1996. This is theoretically possible, even though the parliament has rejected the government's proposed 1996 budget. Spanish law allows an automatic type of "continuing resolution" limiting spending in most categories to the previous year's level.

2. Exchange Rate Policies

Spain joined the European Monetary System (EMS) in mid-1989 at what has been shown subsequently to have been an overvalued level. The peseta played a role in the turmoil disrupting the EMS beginning in September 1992, resulting in expansion of EMS "bands" to 15 percent around the European Currency Unit (ECU) in August 1993. In early 1995, the peseta tested the limits of that band and the Government of Spain was forced to devalue its central rate another 7 percent. Since 1992, the peseta has declined by about 30 percent against the deutsche mark.

The Government of Spain removed the few remaining capital controls on February 1, 1992. 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 non-tariff barriers also had to be reduced or eliminated. 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. 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 with the EU in 1987 in the context of the Enlargement an agreement which establishes a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain 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, valued at about $250 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 complained 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 imports of the affected U.S. products. Since the system became effective, U.S. exporters have not reported any market access impediments to their products covered under the automatic approval system.

The Government of Spain has signed and ratified the Marrakesh Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policies

Spain's foreign currency debt is estimated at about $138 billion—about 29 percent of GDP. Foreign investors bought heavily into Spanish government long-term debt during 1993, profiting as interest rates declined from 12.2 percent in January 1993 to 8 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 upward. 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 $37.1 billion in July 1995, equivalent to five months of imports. Moody's currently 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. Among 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 market to compete with domestic production. However, the Uruguay Round Agreement required that these variable levies be replaced by fixed import duties. As well, all import duties on agricultural products will be reduced by an average of 20 percent 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 for many years.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact on the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993, when EU "single market" legislation became fully implemented in Spain, and now agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain now requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is now required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Telecommunications: 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, some progress has been made. In December 1994, the Government of Spain awarded the second digital cellular license. (Under the terms of its 30-year contract with the government, Telefonica was awarded the first digital cellular license on a non-competitive basis.) In its role as public telephone operator, Telefonica has embarked on an ambitious project to upgrade Spain's communications infrastructure. It has laid 2,500 kilometers of fiber optic line in the last year. 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 have temporarily waived the most onerous restrictions, however, and negotiations are underway for a permanent solution.

Government Procurement: Spain's Uruguay Round government procurement obligations take effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations take effect also on January 1, 1996, except for those on services, which take effect on January 1, 1997.

Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites). 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 to 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. In December 1994, the government introduced draft 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. This draft legislation has not yet become law.

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 incentives (in effect 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 to 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. However, a fast-track procedure may be followed in such cases that would expedite the product's entry into the Spanish 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.

The Spanish government generally maintains that it does not use product certification procedures to hinder trade. It has been cooperative in resolving specific trade problems brought to its attention. The United States has encouraged Spain to simplify its certification procedures and to make them more transparent. In this regard at the EU level mutual recognition of product standards and testing laboratory results is being pursued.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently in China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to $140 million in 1994. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1994.

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 of 1986, a new copyright law in November 1987, and a new trademark law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris Convention on industrial property, the Berne and Universal Copyright conventions and the Madrid Accord on Trademarks. Spanish government officials have said that their laws reflect genuine concern for the protection of intellectual property.

The patent law greatly increased the protection accorded patent holders. In October 1992, Spain's pharmaceutical process patent protection regime expired and product protection took effect. Industry sources have advised that the impact of this product protection law will not be felt until early in the next century when new pharmaceutical products patents applied for after October 1992 enter the market after the 10 to 12 years research and development period normally associated with the introduction of a new product. U.S. makers of chemical and pharmaceutical products have complained that this provides effective patent protection only for approximately 8 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 previous law. In December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in connection with civil lawsuits. Some searches have taken place under these provisions.

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 about 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.

Continuing 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 government has prohibited them from running cables across public ways and is attempting to eliminate such practices. This process would be expedited 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 they maintain ties with recognized international organizations. About 11 percent of the Spanish work force belongs to a trade union. While no official data are available on the percentage of union affiliation in Spain's free trade zones, a trade union official has stated that union membership in these zones is higher than average throughout the economy.

b. *The Right to Organize and Bargain Collectively.*—The right to organize and bargain collectively was established by the Workers Statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a small number of individuals 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 years. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting

child labor is effectively enforced in the special economic zones. The Workers Statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work.*—Workers in general have substantial, well defined rights. A 40 hour work week is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments—one paycheck each month and an "extra" check in June and in December. The daily national minimum wage rate is $17.00 (ptas 2,090); for those aged 16 and 17, it is $11.25 (ptas 1,381). The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome. Safety and health legislation is being revised to conform to 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 these 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		135
Total Manufacturing		4,512
Food & Kindred Products	775	
Chemicals and Allied Products	754	
Metals, Primary & Fabricated	171	
Machinery, except Electrical	444	
Electric & Electronic Equipment	441	
Transportation Equipment	1,104	
Other Manufacturing	821	
Wholesale Trade		824
Banking		1,349
Finance/Insurance/Real Estate		665
Services		413
Other Industries		149
TOTAL ALL INDUSTRIES		8,048

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

SWEDEN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1991 prices)[2]	178,223	184,215	207,789
Real GDP Growth (percent)[3]	−2.6	2.2	3.9
GDP (current prices)	185,156	196,747	230,334
GDP by Sector:			
Agriculture	1,753	1,785	19,399
Energy & Water	5,027	5,118	5,697
Manufacturing	32,976	36,907	44,486
Construction	11,272	10,887	12,248
Rents	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Financial Services	7,311	8,040	9,235
Other Services	62,375	64,878	73,087
Government, Health and Education	N/A	N/A	N/A
Net Exports of Goods & Services	6,643	8,359	16,891
Real Per Capita GDP (US$)	21,205	22,412	24,647
Labor Force (000's)	4,250	4,233	4,300
Unemployment Rate (percent)	8.2	8.0	7.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	−6.6	1.7	1.5
Base Interest Rate[4] (3-month STIBOR)	8.73	7.68	7.46
Personal Saving Rate (percent)	7.9	8.3	6.7
Retail Inflation	4.7	2.2	2.6
Wholesale Inflation	4.8	4.3	8.3
Consumer Price Index	4.7	2.2	2.6
Exchange Rate (SEK/US$)	7.80	7.7[illegible]	7.10
Balance of Payments and Trade:			
Total Exports FOB[5]	49,782	61,167	78,948
Exports to U.S.	4,747	5,563	6,900
Total Imports CIF[5]	42,857	51,767	63,680
Imports from U.S.	4,137	4,750	5,100
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	46,051	49,555	59,236
Debt Service Payments	7,148	55,500	54,500
Gold & Forex Reserves	22,717	22,897	26,760
Trade Balance[5]	6,923	9,399	15,211
Balance with the U.S.[5]	0.61	0.81	1.80

[1] 1995 figures are all estimates based on available monthly data in October 1995.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency external funded debt. For 1995, first half year.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Merchandise trade.

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 transport and communications links, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and strongly supports liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, and it had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area.

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices are particularly important. The Central Bank enjoys significant autonomy in pursuit of its avowed goal of price stability. (Some Parliamentarians in 1995 called for increased political direction of the Central Bank.) Recent years' fiscal policy decisions to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically.

During 1994 and 1995, Sweden was pulling out of its worst and longest recession since the 1930s. GDP declined by six percent from 1991 to 1993. Unemployment has recently averaged 12 to 14 percent. (Sweden quotes two unemployment figures, open and "hidden" unemployment. "Hidden" unemployment covers those in training and work programs and accounts for some 6 percentage points of total unemployment. In 1992, the Swedish krona came under pressure and was allowed to float late that year; Swedish interest rates soared and have come down slowly, remaining about 4 percentage points above German interest rates.

Sweden's export sector is strong, but domestic demand remains weak. Structural changes in recent years have prepared the way for future economic growth. Between the two of them, the Social Democratic government at the end of the 1980s and the Moderate-led coalition government at the beginning of the 1990s have deregulated

the credit market, removed foreign exchange controls, reformed taxes, lifted foreign investment barriers and begun to privatize government-owned corporations.

2. Exchange Rate Policies

Sweden floated the krona in November 1992 after briefly defending its currency during the turbulence in European financial markets. (From 1977 to 1991 the krona was pegged to a trade-weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991 the krona was pegged to the European Currency Unit (ECU).)

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980s. No capital or exchange controls remain. The Central Bank does track transfers for statistical purposes, however.

3. Structural Policies

Sweden's tax burden exceeds 50 percent of GDP. Central government current expenditures during the severe recession was nearly 75 percent of GDP. The maximum marginal income tax rate on individuals is 55 percent. Effective corporate taxes are comparatively low, though social security contributions add one-third or more to employers' gross wage bills. The value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 21 percent for food, domestic transportation, and many tourist-related services.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor is a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than 5 percent ad valorem on finished goods and around 3 percent on semi-manufactures. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some high-technology products that could be used in weapons of mass destruction.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's Common Agricultural Policy have brought re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require that: most of the national debt be in Swedish krona, that the borrowing be predictable in the short term and flexible in the medium term, that the government (i.e., the Cabinet) direct the extent of the borrowing and that the government report yearly to the Parliament.

Sweden's Central Bank and National Debt Office have borrowed heavily in foreign currencies since the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the burgeoning national debt are growing rapidly.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investments and campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military materiel, hazardous substances, certain agricultural commodities, fiberboard, ferro-alloys, and some semi-manufactures of iron and steel. Sweden enjoys licensing benefits under Section 5 (k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents, in order to facilitate exports.

Sweden has harmonized laws and regulations with those of the EU. The country is now open to virtually all foreign investment and allows 100-percent foreign ownership of businesses and commercial real estate, except in areas of air and maritime transportation and the manufacture of military materiel. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases in excess of ECU 400,000. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant GATT/WTO codes concerned with government procurement, standards, etc. There are no official countertrade requirements.

6. Export Subsidies Policies

The Swedish government provides basic export promotion support through the Swedish Trade Council, which is funded jointly with industry. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium- and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's Common Agricultural Policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs; no resource discounts to producers; and no preferential exchange rate schemes. Sweden is a signatory to the GATT Subsidies Code.

7. Protection of U.S. Intellectual Property

Swedish intellectual property practices have no adverse impact on U.S. trade. Sweden strongly protects intellectual property rights encompassed in 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, a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

8. Worker Rights

a. *The Right of Association.*—Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lockouts. These laws are fully respected. Some 87 percent of Sweden's work force belongs to trade unions. Unions operate independently of the Government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively.*—Labor and management, each represented by a national organization by sector, negotiate framework agreements every two-to-three years. More detailed company agreements are reached locally. The law provides both workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. *Minimum Age for Employment of Children.*—Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. *Acceptable Conditions of Work.*—Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which non-union establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. *Rights in Sectors With U.S. Investment.*—The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		48
Total Manufacturing		1,279
Food & Kindred Products	49	
Chemicals and Allied Products	72	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	19	
Transportation Equipment	(1)	
Other Manufacturing	128	
Wholesale Trade		481
Banking		(1)
Finance/Insurance/Real Estate		778
Services		103
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,719

[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 unless otherwise noted]

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1980 prices)[1]	140,044	153,415	177,012
Real GDP Growth (percent)	−1.1	1.3	[2] 0.7
Nominal GDP[1]	232,047	257,628	[2] 305,743
Population (millions)	6.99	7.02	[2] 7.05
Real Per Capita GDP (US$)	20,035	21,854	[2] 25,108
Unemployment Rate	3.7	3.8	[2 3] 3.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.1	10.2	[3] 6.5
Base Interest Rate (percent)	4.0	3.5	[3] 2.0
Personal Saving Rate (percent)	11.5	10.3	[4] 8.5
Retail Inflation	3.3	0.9	[4] 2.2
Wholesale Inflation	0.2	−0.3	[4] −0.2
CPI (May 1993=100)	99.9	100.8	[3] 103
Exchange Rate (US$/SFR)	0.68	0.73	[4] 0.84
Balance of Payments and Trade:			
Total Exports (FOB)	63,140	70,152	[5] 46,574
Exports to U.S.	5,558	6,349	[5] 3,934
Total Imports (CIF)	60,798	67,795	[5] 46,411
Imports from U.S.	3,777	4,176	[5] 2,771
External Public Debt	46,990	56,936	[5] 69,620
Public Sector Deficit (pct)[6]	4.61	3.52	[2] 3.03
Gold & FOREX Reserves	27,648	31,856	[3] 37,629
Trade Balance	2,341	2,357	[5] 164
Balance with U.S.	1,781	2,173	[5] 1,163

[1] GDP at factor costs.
[2] Embassy estimate.
[3] As of September 1995.
[4] Average of January-September 1995.
[5] First half 1995.
[6] As percent of GDP.

1. General Policy Framework

As a country whose only natural resources are its famous mountains, Switzerland derives its wealth from international trade in goods and services. Swiss exporters of goods mainly operate in high-tech niche markets, where they often have a clear competitive advantage over foreign rivals. In services, Swiss banking and other financial services have a reputation for 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 or 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. The Government of Switzerland is currently in bilateral negotiations with the EU, but these could fail over the sensitive dossiers of the free movement of persons and transport. However, in other areas Switzerland has been more successful; Switzerland joined the WTO on July 1, 1995. Experts believe that the conclusion of the Uruguay Round offsets many of the negative effects of the EEA "no" vote and prevents possible discrimination against Swiss products in EU markets.

As a result of the economic recession and excessive government spending toward the end of the 1980s, Switzerland moved from a public sector surplus into large deficits causing a corresponding increase in public debt. Strict expenditure controls have begun to help the economy turn the corner, however, and the deficit should drop to about 3 percent of GDP in 1995 and to below 3 percent in 1996. Local communities and most cantonal governments have also initiated measures to curb expenditures in order to reduce budget deficits. These efforts began paying off in 1995.

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, particularly to financial developments in Germany. Lately, the large budget deficits and public debt have raised concerns over possible negative influences on interest rates.

2. Exchange Rate Policies

For the medium and long-term, the SNB does not have 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

Due to 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 the demand for U.S. exports. The PTT (a public corporation within the government) still has a monopoly over voice transmission, and telecommunication equipment must be approved by an independent federal office. A new law proposed by the Federal Council will take the first steps toward liberalization of the telecommunications sector, splitting the PTT into its postal and telecom units in preparation for eventual privatization. The law will, furthermore, open the market to all suppliers, domestic and foreign. These suppliers would be subject to licensing and required to participate in the maintenance of the telecommunications infrastructure. The Parliament is expected to vote on the new law in December.

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 high-priced domestic products as offsets. In conjunction with the Uruguay Round agreements, the Swiss government has proposed various agricultural reforms in the framework of the "Agriculture 2002" program. These reforms include switching from price subsidies to direct payments. As a result of the Uruguay Round Agreement, 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.

The Federal Council has produced a draft cartel law which will limit price fixing, territorial distribution, and cartel operations. The new law would also exercise control over mergers and consolidations and provide for a strengthened agency to regulate anti-competitive practices.

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 (IMF) and the World Bank in 1992 and holds a seat on the IMF's Executive Board.

5. Significant Barriers to U.S. Exports

Import Licenses: In general, import licenses are required for all imported goods. They are granted freely and serve a primarily statistical purpose. However, import licenses for obligation for importers to purchase offsets of domestically produced goods. The implementation of the Uruguay Round will remove some of these restrictions that also affect U.S. agricultural exports, e.g., asparagus and wine.

Service Barriers: With the exception of telecommunications, the Swiss services sector features no significant barriers to U.S. exports. A new banking law which entered into force in January 1995 allows foreign banks to open subsidiaries, branches, or representative offices in Switzerland without Federal Banking Committee approval. This liberalization is based upon reciprocity with other countries. In addition, a new federal law on stock exchanges, which should enter into force in 1996 at the earliest, will replace the existing system of cantonal regulations. The new law is characterized by a high degree of self-regulation and incorporates the principle of national treatment.

Insurance is subject to an ordinance which requires the placement of all risks physically situated in Switzerland with insurance companies operating in Switzerland. Therefore, it is necessary for foreign insurers wishing to do business in Switzerland to establish a subsidiary or a branch. Government regulations do not call for any other 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 area of telecommunications. The Swiss PTT controls the public network and all services related to voice transmission. Satellite communication requires licensing by the PTT, and telecommunications equipment has to be approved by the Federal Office of Telecommunication (separate from the PTT). The Swiss PTT may take a stake in private companies operating in the area of value-added network services (VANS), which have been liberalized. 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 must either comply with Swiss technical standards or carry EU-Type Approval; certain US standards such as EPA approval have been formally recognized, but Switzerland has yet to recognize U.S. auto safety standards as the equivalent of Swiss or EU 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 the German, French and Italian languages.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: limits on the number of foreign workers; restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland; a prohibition on providing ground handling services to other carriers by U.S. airlines serving the Swiss market; and ownership of real estate by foreigners. (In June, voters defeated a referendum calling for reform of the Lex Friedrich, a law prohibiting ownership of real estate by non-resident foreigners.) For reasons of national security or cultural sovereignty, foreign participation is restricted by law in the hydro-electric and nuclear power sectors, operation of oil pipelines, transportation of explosive materials, television and radio broadcasting, operation of Swiss airlines, and maritime navigation. According to Article 711 of the Code of Obligations, the board of directors of a joint stock company (with the exception of holding companies) must consist of a majority of members permanently residing in Switzerland and having Swiss nationality. Swiss corporate shares are issued as registered shares (in the name of the holder) or bearer shares. In the past, Swiss corporations often imposed restrictions on the transfer of registered shares to limit foreign ownership. But new legislation introduced in July 1992 and the increased reliance of public companies on international capital forced Swiss companies to permit foreign investors to own

shares. 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 for the conduct and purpose of their business. Public corporations may limit the number of registered shares that can be held by any shareholder to a certain percentage of the issued registered stock. As practice has shown, most corporations limit the number of shares to between 2 and 5 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 chemical industry, for example, the proportion of foreigners working in research departments exceeds 40 percent.

Government Procurement Practices: Switzerland is implementing the WTO code agreement on government procurement at the federal and cantonal levels, but at the local level procurement practices remain subject to protectionist measures (often enforced as much against other Swiss communities as toward foreigners).

Customs Procedures: Customs procedures in Switzerland are straightforward and not burdensome. All countries are afforded GATT most-favored-nation treatment.

6. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Rare temporary surpluses of domestic products, like beef or concentrated apple juice, are also subsidized. Switzerland's WTO commitments will require a gradual reduction of export subsidies.

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 rights-holders. 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 (EPC) and the Patent Cooperation Treaty (PCT), making it possible for inventors to file a single patent application in the United States (or other PCT country, or any member of the EPC) 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 or Italian) and must be accompanied by detailed specifications and if necessary by technical drawings. The duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale. Patents are not renewable beyond the original 20-year term, with the exception of pharmaceuticals, where the Swiss adopted a patent term restoration procedure early in 1995.

According to the Swiss Patent Law of 1954, as amended, the following items cannct 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". Animals and biological processes for their breeding cannot be covered. In virtually all other areas, coverage is identical to that in the U.S., but there have been increasing instances of prohibitions by sub-federal units of government on the use of genetically altered plants or animals.

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 quite good. 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 re-broadcast and satellite retransmission of their works, and rights-holders have exclusive rental rights. Collection societies are well established. Infringement is considered a criminal offense. The term of protection is life plus 70 years. Theft of encoded satellite signals (premium channels and Pay-TV) is a serious and growing problem in Switzerland, and Embassy Bern and

industry representatives are actively engaged with the Swiss Government on this problem.

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.; protection for designs is somewhat broader.

8. Worker Rights

a. *The Right of Association.*—All workers, including foreign workers, have the 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 1995.

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 Age 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 enforced by the Federal Office of Industry, Trades, and Labor, providing a high standard of workers' health and safety. The government is in the process of completely revising the labor law which dates from 1948. It plans to abolish the ban on night work and work on Sunday 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. Investment.*—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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		726
Total Manufacturing		2,858
Food & Kindred Products	(1)	
Chemicals and Allied Products	264	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Metals, Primary & Fabricated	167	
Machinery, except Electrical	261	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	736	
Wholesale Trade		11,409
Banking		1,974
Finance/Insurance/Real Estate		15,996
Services		1,414
Other Industries		108
TOTAL ALL INDUSTRIES		34,485

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

TAJIKISTAN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP[2]	N/A	N/A	N/A
GDP (at current prices)[2]	N/A	N/A	N/A
Real GDP Growth (percent)	−11.1	−21.4	N/A
GDP by Sectors:			
Agriculture	116.4	137.6	N/A
Energy	17.7	17.1	N/A
Manufacturing[3]	378.6	365.0	264.5
Construction	17.8	11.3	9.9
Rents	N/A	N/A	N/A
Financial Services	13.6	7.8	N/A
Other Services	0.4	N/A	N/A
Government, Health and Education	52.2	101.2	121.6
Net Exports of Goods and Services	−25.0	−25.5	−33.0
Real per capita GDP (US$)[2]	N/A	N/A	400
Labor Force (millions)[4]	1.84	1.4	1.24
Unemployment Rate (percent)[4]	16	N/A	41
Money and Prices (annual percentage growth):[5]			
Money Supply (M2)	70.3	41.16	217
Base Interest Rate	N/A	N/A	N/A
Personal Savings Rate	14.0	60.0	155.2
Retail Inflation	1,065.0	321.5	550.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (TR/US$, May-October 1995);[6]			
Official	N/A	N/A	103.0
Parallel	N/A	N/A	132.3
Balance of Payments and Trade:			
Total Export FOB	97.2	524.0	647
Exports to U.S.	6.8	26.5	N/A
Total Imports CIF	122.2	600.0	611
Imports from U.S.	3.9	12.9	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
External Public Debt	443.9	753.4	780.0
Debt Service Payments (paid)	N/A	N/A	50
Gold and Forex Reserves	N/A	N/A	20
Trade Balance[7]	−57.3	−76.0	36.0
Balance with U.S.	2.9	13.6	N/A

[1] 1995 figures are all estimates based on monthly data in October 1995, unless noted otherwise.
[2] GDP figures are unreliable because of changing currencies and exchange rates (see note 6). 1995 per capita GDP quoted is that estimated by the World Bank.
[3] Includes material expenses—net figures not available.
[4] Government unemployment rates do not take into account the estimated 60–70 percent of the industrial work force which is idle or on forced leave but is yet considered employed. Decline in labor force reflects a movement out of the formal economy.
[5] 1995 figures in this section cover May to October 1995 (the period of the new Tajik rouble).
[6] During the three years covered in this table, Tajikistan used a different national currency each year. Official 1993 exchange rates (using the pre-1993 Russian rouble) averaged 2064:1; official 1994 exchange rates (using the new Russian rouble) averaged 2205:1. In May 1995, the Tajik rouble was introduced and traded at 50:1; by year's end, the rate was 280:1.
[7] Merchandise trade.

Note: Reliable data are not available in Tajikistan. Sources for this report include the State Statistical Agency, the Ministries of Finance and Economy, the International Monetary Fund, and the World Bank (the latter two also note the unreliability of data). While we have used IMF figures whenever possible, the figures above should be used with caution and as a general basis for comparison, rather than as definitive data.

1. General Policy Framework

The year 1995, while one of continuing overall economic decline, has yet seen significant positive changes in the economic policies of Tajikistan. The introduction of the tajik rouble in May 1995, after Tajikistan's efforts to enter the Russian rouble zone continued to be rebuffed throughout 1994 and the first quarter of 1995, was the most significant event, providing for the first real measure of economic independence since the breakup of the Soviet Union. The appointment of an economic management team headed by the Prime Minister in December 1994 allowed the government to seriously focus on the harsh economic, rather than only the political, realities facing Tajikistan.

Government policies have concentrated in large part on those preconditions necessary to qualify for assistance from the international financial institutions. The introduction of the new currency was followed by attempts (not always successful) to control government spending while at the same time ensuring the social welfare of the population. Bread and flour prices, the last remaining state subsidized consumer products, are expected to be decontrolled by the end of 1995 after an unsuccessful attempt in August. In November 1995, the government adopted an economic program for the next five years which clearly states its commitment to the privatization of state enterprises by the end of 1996 and its intention to reform the agricultural sector.

Tajikistan's foreign debt in 1995 totaled more than its GDP, reaching approximately $780 million by October. Financing of the debt is provided by credit from the National Bank. Government expenditures are largely for grain, the supply of fuel and raw materials for industry, and expenditures for the military which is maintained to respond to attacks both along the Tajik-Afghan border and from pockets of opposition within Tajikistan. While the government has made several good faith efforts to legislate reform, the implementation of these efforts remains lax. Revenue collection has been much lower than anticipated in 1995, returns from the state sale of exports are stagnant, and government subsidies to inefficient state enterprises continue. Inflation for the first nine months of the year averaged 500 to 600 percent, according to estimates by the World Bank. The economy may have contracted by as much as 20 percent in 1995.

Foreign assistance, while still largely focused on the humanitarian emergency, began to address some of Tajikistan's development needs in 1995. Training of key government personnel, financed by the United States, and a small initial program by the European Bank for Reconstruction and Development (EBRD) began in 1995. The United Nations Development Program has planned a substantial rural rehabilitation project for 1996. The International Monetary Fund (IMF) worked actively with the government throughout the year and saw enough positive progress to raise the possibility of signing a stand-by agreement worth over $20 million in early 1996.

2. Exchange Rate Policies

In May 1995, Tajikistan introduced a national currency, the Tajik rouble (TR), replacing the Russian rouble as the legal tender for all transactions. To manage the exchange of foreign currency, the government created the Tajik Interbank Currency Exchange (TICE), which holds weekly auctions for the sale of foreign exchange. The rate of exchange, initially set at an arbitrary rate of TR 50 per U.S. dollar, depreciated steadily over the course of the year, ending at less than one-fifth of its initial rate. The government's ability to support the new currency was severely hampered by its need to keep foreign exchange on hand to purchase wheat, causing the government to suspend TICE auctions repeatedly, sometimes for months, as the currency fell. The government now maintains two official exchange rates, that of the National Bank (set by the TICE) and a higher commercial rate. The unofficial or black market rate is even higher.

The government continues to require the sale of some hard currency, although these requirements were reduced in 1995. Exporters are required to sell 30 percent of their foreign exchange to the Republican hard currency fund, and those trading in cotton and aluminum are required to sell 100 and 90 percent, respectively. The impact of Tajikistan's exchange rate policies upon U.S. imports is slight for the simple reason that there is little substantial trade between the two countries.

3. Structural Policies

Tajikistan's introduction of a national currency in May 1995 inaugurated its fiscal and economic independence from the Russian Federation and demonstrated a renewed commitment to reform by the leadership. The team of economic reformers appointed in December 1994 and headed by the Prime Minister has worked closely and cooperatively with the IMF, World Bank and EBRD. Price controls were eliminated on all consumer goods except bread, as were export licenses for all but two exports (cotton and aluminum). The government began dismantling the state procurement system, with cotton producers given the right to retain 30 percent of their production over and above the state order in 1995. In 1996, the state order for cotton is to be abolished completely. To encourage investment, the government offered to provide foreign companies and joint ventures with tax exemptions and freedom from any applicable export restrictions for the first five years. Perhaps most importantly, the government has begun to publicly recognize the role of the private farmer in promoting greater productivity in agriculture.

Unfortunately, many of these reforms exist only on paper. The prices of bread and flour, which were ostensibly decontrolled in August 1995, remain controlled by the government and are set at artificially low levels. Cotton production in 1995 fell short of the state order for cotton, so that farmers were unable to retain surplus production. While state orders in general are no longer used, the government retains an almost complete monopoly on purchasing, and state purchasing prices for goods—especially agricultural products—are low. Private farmers and enterprises are also hard pressed to procure necessary inputs in a system biased toward state monopoly. Trade continues to be conducted largely on the basis of intergovernmental agreements and relies heavily on barter. A convoluted and corrupt bureaucracy adds to the difficulty of doing business in Tajikistan.

4. Debt Management Policies

Estimates from the government and the IMF put Tajikistan's national debt at over $780 million, or $100 million more than its GDP. Most of this debt was incurred in 1993–4 and is in the form of short-term, high-interest commercial paper. The Ministry of Finance estimates that debt service alone totaled $12 million in 1995. Tajikistan's major creditors are other countries of the former Soviet Union, in particular Russia, Uzbekistan and Kazakhstan, which among them account for approximately $440 million. As Tajikistan appears unable to meet its repayment schedule, the IMF made debt rescheduling an integral precursor of its assistance package, approaching Tajikistan's creditors to request rescheduling until the economic recovery had made some progress. Kazakhstan has thus far been the only creditor to accept rescheduling, announcing its intention to reschedule $18.3 million of Tajik debt as of November 1995. Russia reportedly is also prepared to reschedule its debt, but no other countries have agreed to reschedule. The European Union, owed approximately $73 million as Tajikistan's share of loans made to the former Soviet Union, has declined to reschedule but will look favorably on other financial assistance in order to ease some of the burden. Of Tajikistan's other creditors, the United States is owed $29.6 million (from concessional food credits made under the PL–480 program); Turkey, $26 million (of a possible $50 million in commercial credits); China, $6.4 million (commercial credits); and India, $5 million (also commercial

credits). The huge burden this places on Tajikistan's frail economy makes new credit hard to come by and trade therefore difficult.

5. Significant Barriers to U.S. Exports

Tajikistan's barriers to U.S. exports are mainly the result of inaccessibility and the general economic crisis rather than any deliberate attempt to exclude U.S. goods and services. Tajikistan's geographical isolation, post-communist economy, and new and unstable currency severely inhibit its ability to trade, even with neighboring CIS states. Demand for U.S. exports is dampened by the shortage of hard currency and the lack of adequate banking transfer mechanisms to effect purchases, as well as a business culture that emphasizes personal contacts over competitive bidding. Although legislation encourages foreign investment, contradictory and unclear decrees make doing business in Tajikistan a labyrinthine process.

The government conducts virtually all trade in Tajikistan. Fine fiber cotton and aluminum are the two main sources of hard currency. Trade is characterized by the amount of either product that the government has allocated for purchase of imports. Foreign investors are able, with effort, to negotiate deals with the government. In some instances, they have received benefits such as tax relief, longterm 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 World Trade Organization and does not subscribe to the WTO agreement on export subsidies. To a large extent, it retains the Soviet practice of indirect subsidies through inefficient socialist pricing and state order mechanisms. The holdover of socialist practices is very much apparent in the production of aluminum, one of Tajikistan's two main exports. Subsidized government rates for energy (such as electricity and natural gas) and other raw material costs give Tajik-produced aluminum a distinct price advantage over aluminum produced in the United States or elsewhere. Although the government made preliminary moves in 1995 to decontrol prices in some sectors, such as electrical power and telecommunications, these prices still do not reflect a true market value. In general, however, the continuing economic crisis has left the government with very little to hand out in the way of either direct or indirect support for exporters. That notwithstanding, it is publicly committed to supporting export-oriented state enterprises, chiefly by the provision of scarce financing and government credits.

7. Protection of U.S. Intellectual Property

The USG has concluded trade agreements containing commitments to protect intellectual property (IP) with all the countries making up the Newly Independent States of the former Soviet Union. The agreement came into force in 1993.

Tajikstan is a member of the World Intellectual Property Organization (WIPO). It is a party to several international conventions, among them the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty.

Tajkistan is also a member of the Eurasian Patent Convention which came into force August 12, 1995.

With the adoption of the Constitution in November 1994, the government has passed four new regulations governing the registration of patents. The government also has prepared a draft copyright law. In December 1994, the former Copyright Agency was reestablished as the Ministry of Culture and Information. Tajikstan maintains a State Standards Agency and a National Patent Information Center. As the legal framework for protecting intellectual property in Tajikstan is still evolving enforcement continues to be ineffective.

Currently, piracy of copyright materials is relatively limited and has a negligible effect on U.S. exports. Pirated works sold in Tajikstan are largely video and audio cassettes imported from neighboring countries.

8. Worker Rights

a. *The Right of Association.*—All citizens are granted the right of association, including 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 professional trade unions and currently claims 1.5 million members—virtually all non-agricultural workers. The separate Labor Union of Private Enterprise Workers has nearly 50,000 members from 3,245 small and medium enterprises. Membership has declined in the last year due to increasing economic

difficulties and the bankruptcies of some member enterprises. 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 Contracts, and the Law on Labor Protection. Although collective bargaining is guaranteed by law, as the economic situation has worsened, it has become increasingly difficult for unions to engage in effective collective bargaining. Anti-union discrimination or the use of sanctions to dissuade union membership is prohibited.

c. *Prohibition of Forced or Compulsory Labor.*—Article 35 of the Constitution prohibits forced labor, except in cases as defined by law. No laws have been passed since the adoption of the Constitution in November 1994 defining such cases. Neither the Law on Labor Protection nor the Law on Employment, both of which predate the Constitution, specifically prohibits forced or compulsory labor. 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 1995 students were again sent to the fields in parts of the country as they were in both 1993 and 1994.

d. *Minimum Age for Employment of Children.*—According to labor laws, the minimum age for the employment of children is 16, the age at which children may also legally leave school. With the concurrence of the local trade union, employment may begin at the age of 15. Workers under the age of 18 by law work no more than 6 hours a day and 36 hours per week. However, children as young as 7 years of age participate in agricultural work, which is classified as "family assistance." Trade unions are responsible for reporting any violations in 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 rarely enforced. Relative to former Soviet standards, Tajikistan at one time provided acceptable standards of work. While new statistics are not available, 1993 statistics reported that over one-fifth of the population worked in substandard conditions, and the situation has certainly worsened since then. Workers can leave their jobs with two month's notice but, given the bleak employment situation, few choose to do so.

f. *Rights in Sectors With U.S. Investment.*—There is no significant U.S. investment in Tajikistan.

Data for U.S. investment in Tajikistan is not available.

TURKEY

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1987 prices)	112,879	106,720	[1] 113,016
Real GDP Growth (percent)	8.0	−5.5	5.9
GDP (current prices)	180,399	130,232	N/A
GDP by Sector:			
Agriculture	27,810	20,138	N/A
Energy and Water	4,683	3,777	N/A
Manufacturing	37,539	28,733	N/A
Mining & Quarrying	1,986	1,821	N/A
Construction	13,275	8,878	N/A
Dwelling Ownership	6,206	4,306	N/A
Financial Services	7,145	3,872	N/A
Other Services [2]	52,680	52,611	N/A
Government, Health and Education	18,562	11,599	N/A
Net Exports of Goods and Services [3]	−6,443	2,361	[3] −800
Real Per Capita GNP (1987 dollars)	1,897	1,762	1,866

Key Economic Indicators—Continued

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

	1993	1994	1995
Labor Force (000s)[4]	21,628	22,136	N/A
Unemployment Rate (percent)[4]	8.0	7.9	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2, TL Trillions at mid-year)	224.5	469.3	979.8
Base Interest Rate	N/A	N/A	N/A
Personal Savings Rate[1]	20	22	N/A
Retail Inflation[5]	72	125	88
Wholesale Inflation[5]	60	149	75
Consumer Price Index (end October, 1987=100)	2,717	6,127	8,625
Average Exchange Rate (TL/US$)	10,986	29,704	[6]46,432
Balance of Payments and Trade:			
Total Exports FOB[3]	15,349	18,100	21,000
Exports to U.S.	986	1,520	N/A
Total Imports CIF[3]	29,428	23,300	32,000
Imports from U.S.	3,351	2,426	N/A
Aid from U.S.	578	526	455
Aid from Other Countries	N/A	N/A	N/A
External Debt	67,360	65,600	73,779
Debt Service Payments (Med & LT Paid)	8,085	6,895	N/A
Gold and Foreign Exchange Reserves (mid-year)	17,429	16,514	26,154
Trade Balance	−14,079	−5,130	[7] −8,043
Trade Balance with US	−2,365	−906	[7] −1,388

[1] Embassy estimate.
[2] Includes transportation and communication, trade, business and personal, private nonprofit institutions and import duties.
[3] Current Account Balance, January-August 1995.
[4] State Institute of Statistics, end-October 1995.
[5] Year-on-year rate, ending October 1995.
[6] GOT Target.
[7] January-August 1995.

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 of the new economic philosophy. These reforms have brought Turkey impressive benefits; since 1981, Turkey's average 4.5 percent real Gross National Product (GNP) growth rate has been 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. The government implemented an austerity program on April 5, 1994 and signed a standby agreement with the IMF in July, which was extended through February, 1996. Turkey curbed expenditures sharply and reduced inflation in the months immediately following the program's implementation. Recession followed and real GNP declined by 6 percent in 1994, setting a post-war record. In 1995, the economy has strongly recovered and the annual growth rate is expected to reach 6 percent in real terms. The government has committed itself to structural reforms in the area of privatization, social security and taxation but made little progress in these areas in 1994 or 1995.

Inflation, Growth: Inflation, fueled by massive public sector deficits and one-off price hikes by state industries, worsened in 1994. In 1993, the Consumer Price Index (CPI) increased by 71 percent, four points higher than in 1992. The CPI rose 130 percent in the twelve months ending December 31, 1994, with the WPI increasing by 150 percent during the same period.

Fiscal Policy: The Turkish Government limited current expenditures significantly in the months immediately following the implementation of the austerity program. In 1995, however, expenditures again outstripped revenues and tax receipts. The government continues to incur sizable debt to pay current expenses, finance major

infrastructure projects, and to support state economic enterprises (SEEs). Major rating agencies have maintained Turkey's country risk rating at below investment grade since January 1994, forcing the government to rely heavily on domestic borrowing and advances from the Central Bank to finance its fiscal deficits. Turkey did return to international credit markets in 1995, borrowing approximately $2.5 billion.

Monetary Policy: Turkey's Central Bank has not published a monetary policy since 1992. Since mid-1994, the Central Bank has publicly stated that its goal is to devalue the Turkish Lira at the same rate as inflation. Since the implementation of the April 5 austerity program, the Central Bank has limited its interventions in currency markets.

2. Exchange Rate Policies

The Turkish Lira (TL) is fully convertible and the exchange rate is market determined. The Central Bank intervenes in money markets to dampen short-term exchange rate fluctuations and to provide liquidity during extraordinary events (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 3 percent in real terms. Real depreciation of the TL in 1994 reached 19 percent, during a severe financial crisis that gripped the country in the first four months of the year. After signing a stand-by agreement with the IMF in July 1994, the Turkish Government pursued an IMF-sanctioned "crawling peg" exchange rate policy to dampen inflation, resulting in the real appreciation of the TL against most major currencies. The TL met its IMF targets through the end of October before losing ground in late 1995.

Structural Policies

Since 1980 Turkey has made substantial progress in implementing structural reforms and liberalizing its trade and foreign exchange regimes. In contrast, the government moved forward marginally in privatizing SEEs, which account for some 35 percent of manufacturing value added. Government transfers to SEEs constitute a substantial drain on the economy. The SEEs 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. Import demand dropped sharply in 1994, as a result of the TL's depreciation and a sharp recession. In 1995, imports again demonstrated strong growth as a result of economic recovery, growing at a rate of approximately 50 percent over 1994 levels.

Turkey's largest source of imports in 1994 was Germany, which accounted for 24 percent of total imports, followed by the United States with 8 percent. In the first eight months of 1995, total imports increased by 50 percent. The Embassy estimates that imports will reach $32 billion in 1995, from $23 billion in 1994. Most analysts anticipate further import growth in 1996 following Turkey's removal of tariff barriers for non-agricultural European imports to implement the Customs Union with the EU. U.S. imports increased by 18 percent in 1995, resulting in a U.S. trade surplus of $1.3 billion dollars from January to August.

The European Parliament ratified Turkey's Customs Union Agreement with the European Union (EU) on December 13, 1995. Turkey adopted the EU's Common External Tariff (CET) on January 1, 1996. This has resulted in generally lower tariffs and fees on U.S. imports than those currently in effect.

4. Debt Management Policies

At the end of September 1995, Turkey's outstanding gross external debt was $73 billion—an increase of $8 billion over 1994. The increase in debt stock was a result of exchange rate losses, given Turkey's debt denominated in Deutsche Marks and Japanese Yen. Debt service obligations increased from $8.5 billion in 1994 to $12 billion for 1995. Turkey had no difficulty servicing its foreign debt. Turkey's external debt payments will decrease to about $10.5 billion in 1996.

The Turkish debt service ratio reached a high in 1988 when it equaled 35.6 percent of foreign exchange revenues; in 1995, the debt service ratio was approximately 32 percent. The public sector, including state economic enterprises and local governments, remains the major borrower, accounting for about 83 percent of total outstanding debt and 89 percent of medium and long-term debt in 1993. Bilateral official lenders, principally OECD member countries, accounted for approximately 31 percent of Turkey's 1994 external debt. The IMF standby agreement signed with Turkey in July 1994 was extended through February 1996. The agreement allows drawing rights for $720 million (SDR 509.3 million). The IMF and Turkey agreed

to suspend the IMF program at the end of December 1995 until a new government was formed and able to discuss new economic policies. $200 million of the program was not disbursed.

5. Significant Barriers to U.S. Exports

Import Licenses: While there is generally no requirement for government permission or license for 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 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: Turkey 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 tariff schemes (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 1995 Import Regime continued efforts begun in 1973 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 now find themselves disadvantaged compared to European competitors. With its entry into the Customs Union on January 1, 1996, tariffs for non-agricultural products from EU and EFTA countries disappeared altogether, and Turkey lowered its tariffs on third country, non-agricultural products to the EU's Common External Tariff.

The Turkish Government maintains the use of surcharges on agricultural products in violation of WTO rules

Government Procurement Practices/Countertrade: Turkey normally follows competitive bid procedures for domestic, international and multilateral development bank-assigned tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding/negotiating processes. Some tenders, especially for large projects involving co-production 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 for taxes 15 percent of the total amount of services (including any work performed in the U.S.) in government contracts. Until the bilateral tax treaty between the U.S. and Turkey is ratified, this can significantly add to the cost of U.S. bids, making them non-competitive. U.S. and Turkish authorities initialed a bilateral tax treaty in February 1995, and the agreement is scheduled to be signed in March 1996.

Investment: The Foreign Investment General Directorate of the Undersecretariat for Treasury evaluates all non-petroleum foreign investment projects. The United States-Turkish Bilateral Investment Treaty entered into force in May 1990. The treaty guarantees national treatment for investors of both countries, assures the right to transfer freely dividends and other payments related to investments, and provides for an agreed dispute settlement procedure. 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. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Foreign-owned firms, including several U.S. companies, make use of Turkish Exim'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 GATT Subsidies Code. A partial deduction for corporate tax purposes allows exporters to deduct 8 percent (down from 16 percent in 1991) of their industrial export revenues above $250,000 from their taxable income. Exported products are not subject to the value-added tax.

In 1994 and 1995, the Turkish Government eliminated a number of subsidy programs in order to bring itself in line with WTO rules, including one which discriminates against foreign flag shippers. Turkey continues to maintain a variety of export subsidies for a diverse range of agricultural products. These commitments appear to be consistent with Turkish Government commitments made in the Uruguay Round.

7. Protection of U.S. Intellectual Property

Turkey's poor record of protecting industrial and intellectual property rights has drawn complaint from U.S. firms and the U.S. Government for years. The Turkish Government began work on a new legal infrastructure for IPR protection in the early 1990s. The U.S. has cooperated with Turkey in this effort. Because of the slow pace of the legislative process, and the overall inadequate protection for intellectual property, the United States has placed Turkey on the "Priority Watch List" under the "Special 301" provision of the 1988 Trade Act every year since 1992.

The situation improved considerably in 1995, in part because the EU made adequate IPR protection a precondition for the Customs Union Agreement. The Turkish Parliament passed long-pending legislation to modernize Turkey's patent, trademark, and copyright laws. The government also revised Turkey's Customs Law to improve enforcement of border controls against pirated goods.

Copyrights: Parliament passed a bill in June 1995 amending Turkey's 1951 Copyright Law. The bill:

—extends the term of copyrights from 20 to 70 years;
—extends coverage to computer software;
—increases fines for violators; and
—removes many previous exemptions to full copyright protection.

Turkey also acceded to a number of international copyright conventions during 1995, including the Paris Act (1971) of the Berne Convention and the 1961 Rome Convention.

Unfortunately, the amended Copyright Law fails to address all of the deficiencies in Turkey's copyright regime, and it fails to bring Turkey fully into compliance with Uruguay Round standards for intellectual property protection. In November 1995, the Turkish Parliament was considering legislation to further amend the Copyright Law which addresses many, but not all, of these deficiencies.

The next step for Turkey will be to prove that it can enforce the revised law. The government plans to establish "special courts" to try intellectual property cases. However, it will be several years before judges are properly trained. It remains to be seen whether existing courts can improve on Turkey's unimpressive record of adjudicating IPR cases.

Patents: A new Patent Law came into effect in June 1995 replacing Turkey's 19th Century Patent Law. The new law was subsequently amended in August and November, and implementing regulations were issued in November. As a result, Turkey now has a Patent Law which is compatible with the Uruguay Round's TRIPS Agreement. The legislation does not contain "pipeline" protection for pharmaceutical products. As with copyrights, Patent Law enforcement is the next challenge.

Trademarks: Along with the Patent Law, Turkey replaced its Trademark Law in 1995. Here, too, it remains to be seen how effective the Turkish bureaucracy and legal system will be in controlling the current widespread counterfeiting of foreign trademarked products. Turkey acceded to a number of patent and trademark international conventions in 1995, including:

—the Stockholm Act (1979) of the Paris Convention for protection of industrial property;
—the Patent Cooperation Treaty (1984);
—the Strasbourg Agreement on International Patent Classifications;
—the Geneva Act (1979) of the Nice Agreement on International Classification of Goods and Services; and
—the Vienna Agreement establishing an international classification of figurative elements of marks.

8. Worker Rights

a. *The Right of Association.*—Most workers have the right to associate freely and form representative unions.

Except in stipulated industries and services such as public utilities, the petroleum sector, protection of life and property, sanitation services, national defense and education, workers have the right to strike. Turkish law and the labor court system require collective bargaining before a strike. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps before an employer may engage in a lockout. Non-binding mediation is the last of these steps. Once a strike is declared, the employer involved may respond with a lockout. If the firm chooses to remain open, it is prohibited from hiring strikebreakers or having administrative personnel perform jobs normally done by strikers. Solidarity, wildcat, and general strikes are illegal.

In 1993, the Turkish Parliament ratified seven ILO Conventions, including Convention 87 on labor's freedom of association and right to organize. In July 1995, the Parliament amended the Constitution to allow civil servants the right to form

unions and engage in collective talks with the government. The government's ability to prohibit or postpone strikes was further circumscribed. The constitutional reform also lifted restrictions on unions' participation in politics.

The 1984 law establishing free trade zones forbids strikes for ten years following their establishment, although union organizing and collective bargaining are permitted. The High Arbitration Board settles disputes in all areas where strikes are forbidden.

b. *The Right to Organize and Bargain Collectively.*—Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent a union must represent not only more than 50 percent 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 into good faith negotiations with the union.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment of Children.*—The Constitution prohibits work unsuitable for children, and current legislation forbids full-time employment of children under 15. The law requires that school children of age 13 and 14 who work part time must have their working hours adjusted to accommodate school requirements. The Constitution prohibits children from engaging in physically demanding labor, such as underground mining, and from working at night. The laws are effectively enforced only in organized industrial and service sectors. Unionized industry and services do not employ 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 does so regularly. Labor law provides for a nominal 45 hour work week and limits the overtime that an employer may request. Most workers in Turkey receive non-wage benefits such as transportation and meal allowances and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors With U.S. Investment.*—Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		693
Food & Kindred Products	139	
Chemicals and Allied Products	130	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	4	
Transportation Equipment	133	
Other Manufacturing	86	
Wholesale Trade		19
Banking		110
Finance/Insurance/Real Estate		(2)
Services		(1)
Other Industries	−2	
TOTAL ALL INDUSTRIES		1,084

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

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

TURKMENISTAN

Key Economic Indicators

[Billions manat unless otherwise noted]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP Growth (percent)	N/A	N/A	N/A
GDP (at current prices)[2]	8.7	57.6	425.2
GDP by Sector:			
Agriculture	1.2	23.6	187.1
Industry	4.0	12.7	97.8
Construction	1.2	8.6	68
Services	2.3	12.7	72.3
Per Capita GDP (manat)	2,019	13,046	93,822
Labor Force (thousands)	2,053	2,105	2,138
Unemployment Rate (percent)	2.3	2.3	2.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	1,224.6	699.7	[3]333.4
Base Interest Rate (refinancing rate)	40–50	50	[3]15
Personal Saving Rate	4–50	5–120	[3]5–160
Retail Inflation	1,774	1,380	840
Wholesale Inflation	1,509	810	950
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (manat/US$—annual average):			
Official	2	16.7	110
Commercial	N/A	55.4	[4]285
Balance of Payments and Trade (millions of U.S. dollars unless otherwise noted):			
Total Exports (FOB)[5]	2,692.7	2,176.9	2,008
Exports to U.S.	0.24	35.1	36.4
Total Imports (CIF)[5]	1,592.7	1,690.4	1,472
Imports from U.S.	49.2	56.6	42.3
Aid from U.S.	3.85	N/A	[6]7.75
Aid from Other Countries	N/A	2.2	[6]0.052
External Public Debt	165.0	371.2	457.8
Debt Service Payments (paid)	1.92	29.9	265.3
Trade Balance[5]	1,100.0	486.5	536
Trade balance with U.S.	−48.96	−21.5	−5.9

[1] 1995 figures are all estimates based on available monthly data as of November 1, 1995.
[2] GDP was calculated at official exchange rate.
[3] Data as of October 1, 1995.
[4] Effective November 27, 1995, the official commercial exchange rate is approximately 1500 manat/usd.
[5] Merchandise trade.
[6] Humanitarian assistance as of October 10, 1995.

1. General Policy Framework

Turkmenistan became an independent country following a national referendum on October 27, 1991. Saparmurad Niyazov, head of the Communist Party since 1985 and party 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 for five additional years until the year 2002. Since that time he has been asked by various local groups, most recently on October 26, 1995, at the annual Elders Meeting, to be "president for life," but this status would require an amendment to the constitution.

President Niyazov declared his intention to develop a market economy, while maintaining a state role in 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 pri-

vate farmers, 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, without granting them rights to sell or give away the land. Farmers, who do not own land must sell most of their crops to the state at fixed prices. There are currently 4,000 such landowners who have received 81 thousand hectares of undeveloped land, each possessing no less than 50 hectare plots of land. The state is supposed to encourage them through construction of irrigation systems, favorable tax and credit policies, etc. However, only 30 thousand hectares have been developed due to poor economic incentives and other logistical conditions. In 1995, all state and collective farms were abolished and replaced by peasant amalgamations, but these new institutions continued to function in the same way as the old farms.

In December 1993 Niyazov initiated a small business privatization process wh ch began with the auctions of state services and later included the privatization of trade and public catering enterprises. Most of the enterprises are being bought by labor collectives and individuals. The government claims that 1,594 enterprises were privatized as of October 1, 1995. The Ministry of Economics and Finance oversees the privatization process, which is expected to continue through 1996 with the privatization of automotive transportation enterprises. However, on the whole, the government has failed to take the necessary measures to ensure real privatization of small state enterprises and farms.

Turkmenistan's economy is highly dependent on the production and processing of energy resources and cotton. Natural gas, petroleum products, along with cotton fiber, provide 75 percent of total exports. Energy reserves are estimated at 15.5 trillion cubic meters of natural gas and 6.3 billion tons of oil. However, the only pipeline route currently available runs north to Russia, which limits Turkmen gas exports to countries within the Commonwealth of Independent States, especially Ukraine. There are large deposits of various minerals and salts, with indications of commercially exploitable gold, silver, and platinum.

Despite this mineral resource abundance, agriculture accounts for nearly one-third of GNP and more than two-fifths of total employment. Cotton is the dominant crop, covering more than 45 percent of arable land and 56 percent of total agricultural production. The 1995 target is to harvest 1.35 million tons through improved technology, but indications are that this target will not be met. Grain production is the second priority. In 1995, according to the State Statistics Committee, Turkmenistan harvested about 842,000 tons of wheat against a planned one million tons and 700,000 tons during the 1994 harvest. Domestic demand for wheat is about 1 million tons per year. By 1996, Turkmenistan hopes to be self-sufficient in wheat production, but this is unlikely. Livestock accounted for 22 percent of agricultural production. By October 1, 1995, there were only 1.2 million cattle and 7.1 million sheep available in the state and private farms against demand of two million and 16 million, respectively. For the remainder of its needs, Turkmenistan imports meat from Ukraine, Russia, Kazakhstan, and New Zealand.

Turkmen farmers rely heavily on irrigation. Agricultural yields are two to three times lower than expected due to years of inefficient water use, salinization, inappropriate land irrigation, and over-development of cotton cultivation. The government has ceased increasing the area occupied by cotton fields and encourages research into more efficient water usage, but is increasing land under cultivation for wheat to reach self-sufficiency. 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 restrict development of the remaining 90 percent of this highly arid country.

Large scale specialization of agriculture creates a heavy reliance on food imports. From year to year, Turkmenistan has been importing grain, dairy products, potatoes, and sugar. Ukraine has been the main food supplier to Turkmenistan, due to its huge debt for Turkmen natural gas. 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-payments for natural gas deliveries by Ukraine and other CIS states led to a 1995 gas production decrease of 27 percent against 1994 production and to reduced state investment activities. In turn, this caused industrial production to decrease an average of 18.1 percent in comparison with 1994. Payment defaults, primarily caused by currency non-convertibility and a lack of hard currency in CIS countries, make inter-CIS trade complex, non-profitable and, thus, minimal. Turkmenistan continues to focus on clearing and barter payment arrangements with its CIS trading partners.

Rail and road transport, pipeline routes, and shipping via Russia and other CIS countries remains the major routes for export of Turkmen goods. Turkmenistan, Iran, and Turkey have signed a political agreement to build a gas pipeline through Iran to Turkey. However, so far financing has been secured only from Iran. Construction of a short 200 kilometer pipeline to Iranian territory was launched in early October 1995, but this will only provide gas to northern Iran. Turkmenistan and Iran are building a rail link between Serakhs and Meshed, which is scheduled for completion in 1996. The government has contracted with Unocal (American) and Delta (Saudi Arabia) to build gas and oil pipelines through Afghanistan to Pakistan. The new international airport in Ashgabat started operations at the end of 1994.

Turkmenistan's 1995 budget was projected at $315 million, including hard currency payments owed for gas shipments by Ukraine and the Caucasus (in accordance with previously concluded agreements). However, only about 41 percent of planned incomes from natural gas sales entered government coffers during the first nine months of 1995. These payment defaults have produced an overall budget deficit. As a result, the government has toughened its financial policy by denying credits, reducing numerous construction activities, maintaining high percentage rates on foreign exchange remittances from state-owned enterprises, and strengthening control over budget expenditures. Expenditures by the Ministries of Oil and Gas and Agriculture remain outside the budget, thereby skewing the budget picture and limiting Ministry of Finance control.

About 60 percent of all budget expenditures are designated for social services for the population, including $54 million (17 percent) to subsidize staples and services, while 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. During the first nine months of 1995, actual government revenues reached only 86 percent of the planned figure. Income from the value-added tax and profit tax comprised, respectively, 32 percent and 24 percent of the overall government revenues during the same period of 1995.

With respect to monetary policy, the main instruments of credit control include reserve requirements and a refinance policy. In practice, the level of banks' 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. Until November 27, 1995, the Central Bank determined the exchange rate. Currently, individual banks are setting their own rates based upon demand in an attempt to rein in the soaring black market. It is unclear how long this new system will last.

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) and Organization of Islamic Conference (OIC), along with other central and south Asian countries and Iran and Turkey. Turkmenistan became an observer to the GATT in June 1992. Turkmenistan is not currently considering membership in the World Trade Organization.

2. Exchange Rate Policies

On November 1, 1993, the government introduced a new national currency, the manat. The initial exchange rate was set at an unrealistic two manat to 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. In 1994, an unrealistic official foreign exchange rate was arbitrarily raised several times against the U.S. dollar, and foreign exchange was not freely sold until December 12, 1994. In early 1995, the Central Bank allowed up to $500 limited foreign exchange sale at an exchange rate of 220 manats per one dollar.

Having poured foreign exchange onto the market, the Central Bank reduced the rate from 220 manats to 195 manats against the dollar and kept it stable for a couple of months. However, new strict government restrictions on foreign exchange, growing demand for hard currency and high inflation rates put increasing pressure on the manat. On September 19, 1995, the official rate was set at 200 manats per dollar for payments on government commitments, and the commercial rate for the population was set at 500 manats per dollar.

After a month of rapid devaluation of the manat on the black market, reaching as high as 1900 manat/dollar, on November 27 the government announced the free exchange of currency through the country's banking system. Prices would be set by the banks based on demand and citizens could exchange up to $1,000 per visit. As of the end of November 1995, the average exchange rate in Ashgabat is 1500 manat/dollar. It is unclear how long the current situation will last or if the government will establish currency auctions in the near future. Both dollars and manats remain in short supply. Foreign companies, although authorized to exchange manats for dollars, are having great difficulty with convertibility because the Central Bank does not have sufficient reserves. Most major transactions are now carried out in dollars.

The government plans to reintroduce the foreign exchange auction when much needed foreign exchange has been collected. In the absence of hard currency payments from its gas purchasers, the government is depending primarily on the successful operation of the CRME to provide this hard currency to the Central Bank. This is unlikely to happen in the near future.

3. Structural Policies

The government is anxious to attract foreign investment to develop Turkmenistan's substantial energy, mineral, and agricultural resources. Laws on foreign investment, banking, taxation, foreign exchange regulation, property ownership, etc., which were passed in October 1993, are intended to create a legal commercial framework to attract investment. The government is still working to establish a comprehensive commercial code.

In 1993, the Halk Maslahaty (People's Council) created "economic zones of free entrepreneurship" in seven regions throughout 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 of gas exports are surrendered to support the government's foreign exchange fund. Foreign investments are exempt from paying this export tax.

The government continues to regulate salaries. Following the introduction of a national currency and the subsequent increase in inflation, the president announced a third round of mandatory salary increases effective July 1, 1995. The minimum and average salaries were set between 1,000 and 6,000 manat per month. Pensions, stipends, and allowances were also adjusted. However, with an on-going sharp rise in inflation, the result is a rapid decrease in purchasing power.

The government continues to control and subsidize prices for staples, medicines, housing, public transportation services, and some production costs. The price liberalization, which began in 1992, is expected to continue slowly.

4. Debt Management Policies

An economic agreement signed with Russia on July 31, 1992, resulted in Russia assuming all of Turkmenistan's debt obligations as a member of the former Soviet Union (FSU), while Turkmenistan surrendered all claims to FSU assets.

Turkmenistan currently faces on-going difficulties with hard currency payments for gas deliveries to Ukraine and the Caucasus. The estimated debt of these countries to Turkmenistan is $1.5 billion. Turkmenistan is forced to continue supplying these countries with gas despite these payment problems 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 fiscal years (FY) 1993 and 1994 and $15 million in FY–95. Turkmenistan also took advantage of $5 million and $10 million GSM–102 credits which were granted in FY–93 and FY–94, respectively. A new $10 million FY–96 Title I agreement is currently under consideration by the government. Turkmenistan has also concluded long term credit deals with American, European and Turkish companies, the European Bank for Economic Development, and the Iranian and Indian governments. 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

The lack of a freely convertible currency, the absence of an efficient banking system, the rudimentary business infrastructure and the centralization of decision making present obstacles to U.S. exports. With Russia and the other CIS countries, a clearing arrangement exists. But in these situations, 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 six 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, ended without reaching agreement in 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 concluded in 1992 and is currently in force.

6. Export Subsidies Policies

The government provides substantial subsidies to state enterprises, including transportation, communications, etc., which support production and employment. Subsidies also are focused in the energy sector, which is destined for export.

7. Protection of U.S. Intellectual Property

The United States has concluded trade agreements containing commitments to protect intellectual property rights with all the republics making up the newly independent states of the former Soviet Union. The trade agreement with Turkmenistan was signed and came into force in 1993.

At this time, piracy of copyright materials is still relatively limited. A law protecting intellectual property was signed by President Niyazo in September 1992; the copyright law became effective in October 1993. Turkmenistan is a member of the CIS Agreement on Cooperation in the Field of Copyright and Neighboring Rights which entered into force on September 24, 1993. This treaty obligates members to enact legislation which provides levels of protection afforded by the Berne (copyright) Convention and Geneva Phonograms Convention.

Turkmenistan is a member of the Eurasian Patent Convention which came into force August 12, 1995.

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 group 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 jobs and/or losing homes or other property. In July 1995, a small demonstration took place in Ashgabat protesting economic conditions. Since that time, gatherings of three or more are being dispersed and participants are sometimes arrested; uniformed official presence has increased.

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 sectors. In other areas, there is some leeway. As a result of the predominantly state-controlled economy, the worker's ability to bargain is seriously limited.

c. *Prohibition of Forced or Compulsory Labor.*—Turkmenistan's constitution forbids forced or compulsory labor.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 16; with the exception of a few heavy industries, in which case the minimum age is 18. While the standard 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 permission of their parents and the trade union. In such rare cases, they work four to six hours per day. Violations of child labor laws routinely 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 especially vulnerable 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 any different in these facilities than those in other industries.

Data on U.S. investment in Turkmenistan is not available.

UKRAINE

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP Growth (percent)[1]	−14.2	−23.0	−13.0
GDP (at current prices; in trillions of coupons)	61	1,500	5,100
GDP by Sector (percent change from previous year):			
Agriculture[1]	1.5	−17.5	−9.0
Energy (consumption)[1]	−11.6	−13.1	−0.5
Industry[1]	−7.6	−27.7	−14.5
Construction[1]	−8.7	−40.7	−31.5
Consumer Goods[1]	−15.9	−26.7	−9.5
Capital Investment[1]	−10.3	−20.0	−25.0
Exports[1]	−16.0	−18.0	2.5
Imports[1]	−23.4	−17.4	3.6
Labor Force (million)	23.9	22.5	22
Unemployment Rate (percent)[1]	0.4	0.4	0.4
Money and Prices:			
Base Interest Rate (percent)[1]	N/A	19	95
Domestic Savings Rate (percent)[2]	7.0	2.7	3.9
Wholesale Inflation (pct chg)[3]	9,770	550	205
Consumer Price Index (pct chg)[3]	10,258	475	180
Exchange Rate (coupon/US$):			
Official[4]	12,610	108,855	179,000
Market[4]	31,000	128,000	182,000
Balance of Payment and Trade:			
Total Exports[3]	10,841	9,933	8,995
Exports to U.S.[3]	164	335	475
Total Imports[3]	12,669	10,126	8,825
Imports from U.S.[3]	224	182	165
Aid from U.S.[5]	N/A	900	225
Foreign Exchange Reserves[6]	N/A	N/A	1,000
Trade Balance[3]	−182	−193	170
Trade Balance (CIS)[3]	−2,670	−1,796	−1,210
Trade Balance with U.S.[3]	−60	253	310

[1] 1995 figures annualized as of October 1.
[2] Official projections for 1995.
[3] 1995 figures as of September 1.
[4] 1995 figures as of November 1.
[5] Obligated funds.
[6] National Bank of Ukraine estimate as of September 1.

1. General Policy Framework

Ukraine declared independence on August 24, 1991 and voters overwhelmingly ratified independence in a national referendum on December 1, 1991. Ukraine is the second largest country to emerge from the former Soviet Union in terms of population and economic power, the third in terms of area. It encompasses 603,700 square kilometers and has populated of 51.7 million (1989), 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 country's natural resource endowment gave rise to a well diversified economy during the Soviet era, including a strong agricultural and food processing industry, a large heavy industry sector and a substantial capital goods sector that was oriented toward military production.

Despite its natural wealth, Ukraine has faced high inflation and a declining economy since independence. Output continues to decline in most sectors of the economy, although the rate of contraction shows some sign of bottoming out. The government forecasts that the economy to begin to expand, however slightly, by the end of 1996 and pick up steam in subsequent years. In 1993 and for most of 1994, economic reforms were implemented slowly and half-heartedly, as the government lacked the political will to fully embrace market reforms. Ukrainian officials attempted to move toward a mixed economy gradually to avoid a decline in the standard of living and the risk of creating social upheaval, and continued to rely on administrative command methods to run the economy. This policy exacerbated the decline in industrial production, helped inflation to spiral, and slowed the privatization of the economy. The result was an overall economic gridlock.

The economic conditions remain grim in 1995, but the policy outlook has brightened considerably. The 1994 national elections, which included the selection of a new president, provided new ideas and fresh thinking for the country. With the election of President Kuchma, Ukraine unambiguously signaled its determination to embark on comprehensive, market-oriented economic reform. A series of new policies were launched in October 1994, including the unification of the exchange rates, reform of the tax and banking systems, price liberalization, reduction of state subsidies, adoption of policies to curb inflation, reduction in controls on exports and imports, acceleration of the privatization process, and reduction of the government's budget deficit. Relatively tight monetary and fiscal policies have succeeded in dramatically reducing the budgetary deficit, lowering inflation and increasing foreign reserves. The so-called "shadow" private sector economy has flourished as well, and now accounts for perhaps 40–50 percent of economic activity.

Ukraine's economic reforms led to an agreement with the International Monetary Fund (IMF) in October 1994 on a Systemic Transformation Facility (STF) loan of $900 million. International financial assistance to Ukraine has grown rapidly since the end of 1994. In addition to the STF loan, Ukraine and the IMF came to terms in March 1995 on a one-year stand-by agreement for an additional $1.5 billion. As of November 1995, Ukraine was continuing to abide by the terms of the stand-by. The World Bank is now fully engaged in Ukraine as well, providing loans to promote structural reform in the critical energy and other sectors.

2. Exchange Rate Policies

On January 10, 1992 Ukraine adopted a system of coupons as legal tender. The government introduced this system in response to a complete cut-off in the supply of rubles from the Russian Central Bank and concern that relatively low-priced Ukrainian goods were being exported away to other new independent states. Coupons can be used for all cash transactions in Ukraine. The Ukrainian Government plans to use the coupon as a transitional currency, until the new currency—the hryvnya—is introduced sometime in 1996.

Ukraine had a two-tiered official exchange rate and several unofficial rates up until October 1994 when, as part of the agreement with the IMF, the official rate and the "street" rate were unified. The Ukrainian Interbank Currency Exchange (UICE) was re-opened. The exchange rate is now determined at daily UICE auctions involving 50–60, with the National Bank of Ukraine (NBU) overseeing operations. A wide network of legal currency exchange kiosks also exists. The difference between the exchange rates at these kiosks and the UICE rate is normally several percentage points. People who earn foreign currency are obligated to surrender 50 percent of it at the official rate.

3. Structural Policies

Privatization of Ukrainian enterprises has proceeded unevenly thus far due to uncertain benefits, a complicated and confusing procedure and a lack of high-level leadership. Housing privatization has done somewhat better with almost 30 percent of eligible dwellings now privatized. Significant progress was made during 1995 in setting up an administrative structure to move forward with privatization nationwide. There is now a privatization auction center in every region (oblast) and a national auction center in Kiev. Distribution of privatization certificates to every citizen continues. Despite these steps, it appears that only 30 percent of the government's privatization target for 1995 has been met, as bureaucratic obstacles and a recalcitrant parliament have hindered the process. Major foreign donors are now working with the government to streamline and accelerate Ukrainian privatization. However, some donors are concerned over the extent to which agro-industrial enterprises have been exempted from the auction privatization process.

Ukraine adopted serious tax reform policies in 1994 and 1995. Much work remains to be done as the present tax system remains confusing and subject to con-

stant change. Government regulation of the economy is also chaotic and, combined with tax rates that are onerous in many instances, keeps much business activity underground. The increasing incidence of crime and corruption is also hindering business development. Foreign investors were granted significant tax holidays in the foreign investment law of 1994, but these tax holidays were repealed in the 1995 tax reform. Other changes in 1995 include modifying taxes on enterprises to tax profits rather than gross revenues as in the past, at a general rate of 30 percent. Businesses can now claim most standard deductions. Ukraine also has a 20 percent value added tax (VAT).

Most prices were liberalized in October 1994. As a result, price controls remain on only a handful of products, including products of natural monopolies. Prices on communal services such as rent and utilities were increased through 1995 and more increases are scheduled for 1996. These are expected to lead to full cost recovery.

4. Debt Management Policies

Since independence, Ukraine has incurred only a modest foreign debt to the West, but an increasingly large debt to Russia and Turkmenistan for deliveries of oil and natural gas. As of September 1, 1995, Ukraine's foreign debt stood at $8.8 billion, or about ten percent of GDP. Ukraine reached an agreement with Russia and Turkmenistan in early 1995 to reschedule Ukraine's acknowledged debt of some $2.5 billion to Russia and $855 million to Turkmenistan. As of late 1995, external arrears remain a much diminished, but still very real problem. The government has established a hard currency credit committee to approve all government hard currency debt obligations and issuance of state guarantees on credits. Ukraine remains in compliance with the IMF stand-by program requiring strict monetary and fiscal policies and removal of external arrears. As a result of Ukraine's weak economy, external financing has been from official rather than private sources. Total foreign debt increased from $4.5 billion of the beginning of 1994 to $8 billion at the beginning of September 1995.

5. Significant Barriers to U.S. Exports

The single most important barrier to trade and investment in Ukraine remains the country's painful transition from a command economy to one based on market principles. Conditions are improving, however, as the economy stabilizes and inflation declines. American companies doing business in Ukraine should develop cautious and long-term strategies which take full account of the problematic commercial environment. Factors impeding U.S. exports include the underdeveloped banking system, a poor communications network, difficult tax and regulatory climate, increasing occurrences of crime and corruption, limited opportunities for foreigners to participate in the privatization process and lack of a well-functioning legal environment.

The environment for U.S. trade and investment would benefit from adoption of further reform measures including the development a separate uniform commercial code covering all forms of business activity, elimination of the licensing requirement for hard currency loans for all private-sector businesses including joint ventures with foreign equity, development of an easily accessible and reliable mechanism for collateralizing loans, and adoption of laws that would apply penalties for social and environmental damage more equitably.

The U.S. Export-Import Bank is currently open for short-term and medium-term transactions; OPIC risk insurance and direct financing programs are available to U.S. investors in Ukraine. Ukraine's standards and certification requirements apply equally to domestic and imported products. Product testing and certification are required to establish compliance with technical, safety and environmental standards. For pharmaceutical and veterinary products, testing and certification are required to establish compliance with efficacy standards. At a minimum, imports to Ukraine are required to meet the certification standards of their country of origin. In cases where Ukrainian standards are not established, country of origin standards may prevail.

U.S. exports to Ukraine may take advantage of preferential tariff rates if the following three criteria are met: the exporter is registered in the United States; the products have a certificate of origin to prove they are U.S. products; and, the products are imported directly from the United States. There are no special registration or other requirements. Duties on goods imported for resale are subject to varying ad valorem rates which are currently in the process of being revised. Imported goods are not considered legally entered until they have been processed through the port of entry and cleared by Ukrainian customs officials. Import licenses are required for very few goods, primarily medicines, pesticides, and some industrial chemicals.

6. Export Subsidies Policies

As part of its effort to cut the budget deficit, the government very significantly reduced subsidies to state-owned enterprises in 1995. However, subsidies continue to play an important role in Ukraine's economy. State subsidies are not intended to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition from a centrally-planned to a market-oriented economic system. The government does not target small businesses for export subsidies. Ukraine has applied to join the World Trade Organization and is expected to become a member of the GATT subsidies code.

7. Protection of U.S. Intellectual Property

Intellectual property is protected under Ukrainian law, although enforcement remains inadequate. Two Ukrainian agencies have responsibility for intellectual property rights: the State Ukrainian Copyright Agency and the State Patent Office. As one of the successor states to the Soviet Union, Ukraine belongs to the conventions and agreements signed by the Soviet Union and is a member of the World Intellectual Property Organization (WIPO). Ukraine is a member of Paris Convention on Protection on Industrial Property, the Universal Copyright Convention and joined the Berne Copyright Convention in 1995. Ukraine is also a member of the International Copyright Convention, the Madrid Agreement on the International Registration of Marks, and the Agreement on Patent Cooperation.

A wide range of laws on intellectual property rights protection was enacted in December 1993 and came into force in July 1994. These include the 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 WIPO and experts from the European Patent Organization, Ukrainian legislation on industrial property rights protection is the most market-oriented in the former Soviet Union.

Piracy and counterfeiting are clearly having a negative impact on the potential for U.S. exports to Ukraine. There are no data available on the infringement or counterfeiting of trademarks in Ukraine. According to the Ukrainian Copyright Agency, there are also no statistics available on the piracy of books, records, videos, or computer software, although this is clearly a growing problem. Computer programs and sound recordings are treated as copyrighted works under Articles 18 and 19 of the Ukrainian Copyright law.

8. Worker Rights

a. *The Right of Association.*—Old Soviet-era laws and 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. All unions are permitted to participate in negotiating wages with the government. 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.

b. *The Right to Organize and Bargain Collectively.*—The law on labor conflict resolution guarantees the right to strike to all employees except members of the armed forces, the civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). The law also 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. In practice, the law has not stopped miners and other workers from striking or from making political as well as economic demands.

There are no official restrictions on the right of unions to affiliate with international trade union bodies. The Independent Miners Union of Ukraine is a member of the International Miners Union. 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.

Under with the Law on Enterprises, joint worker-management commissions are supposed to resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. However, in practice, overlapping spheres of responsibility often impede the collective bargaining process. Wages in

each industrial sector are established by the government after consultation and agreement with the appropriate trade unions. All trade unions are invited to participate in these negotiations. In case a labor-management dispute cannot be resolved at the enterprise level, the law on labor conflict requires another body, the National Mediation and Reconciliation Service, to arbitrate. The president of Ukraine appoints the head of the Reconciliation Service.

The collective bargaining law often prejudices the bargaining process against the independent trade unions in favor of the official unions. The collective bargaining law provides for dues to be withheld from the pay of every worker in a collective and paid to the official union. The social welfare benefits received by workers, including pension benefit funds, are administrated for the enterprise by the union. The collective bargaining law also prohibits anti-union discrimination. Disputes under the law may be resolved in court; 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 16. As an exception, persons 15 years of age can be employed upon the consent of one of the parents or a legal guardian (according to the law on alterations of the Article 188 of the labor code). Education is compulsory up to the age of 15. The Ministry of Education vigorously enforces the law on education.

e. *Acceptable Conditions of Work.*—The labor code provides for a maximum 40-hour work week and at least 15 days of paid vacation per year. Fmployees under age 18 are eligible for one month paid vacation. Stagnation in most sectors of the economy has significantly reduced the work week for most categories of workers. The labor code contains articles that provide for minimum wage review, wage indexation due to inflation and compensation of losses for wage payment delay, but they are not in effect, in part because the implementation mechanism is still being developed. Wages are to be indexed to the level of monthly inflation by a coefficient of 0.8 percent.

The constitution and other laws of Ukraine contain occupation safety and health standards, but these are frequently ignored in practice. Safety is a big concern in the coal industry as accidents continue in mines. As of September 1995, 266 fatalities occurred at Ukrainian coal mines. In 1994, 44,000 accidents resulted in 368 fatalities. 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.

f. *Rights in Sectors With U.S. Investment.*—Conditions do not differ significantly in sectors with significant U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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.

UNITED KINGDOM

Key Economic Indicators

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

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP (1990 prices)[3]	715.4	758.4	795.4
Real GDP Growth (percent based on BPS)	2.2	3.9	3.2
GDP (at current prices)[3]	820.1	886.1	935.8
GDP by Sector:[4]			
Agriculture	16.1	17.7	N/A
Mining (inc. oil and gas)	18.8	20.0	N/A
Manufacturing	170.9	185.5	N/A
Energy and Water	21.6	23.6	N/A
Construction	43.3	47.5	N/A
Wholesale and Retail Trade	118.4	127.7	N/A
Transportation/Communication	69.0	75.0	N/A
Financial Services (inc. rents)	210.4	236.5	N/A
Government, Health and Education	157.0	165.1	N/A
Other Services	31.3	33.7	N/A
Net Exports of Goods and Services	−11.5	−10.4	−9.6
Real Per Capita GDP (based on expenditure, US$ thous)	12,294	12,995	13,587
Labor Force (millions)	28.3	28.1	28.0
Unemployment Rate (percent)	10.3	9.3	8.3
Money and Prices:			
M2 Money Supply (percent change)	5.2	4.5	6.2
Base Interest Rate	7.0–5.5	5.5–6.25	6.25–6.75
Personal Saving Rate (pct of DI)	11.4	9.4	9.8
Retail Inflation (CPI in pct)	1.6	2.4	3.5
Wholesale Inflation (PPI in pct)	4.0	2.5	4.4
Exchange Rate (US$/pound)	1.50	1.53	1.57
Balance of Payments and Trade:[5]			
Total Exports FOB	178.7	204.7	232.4
Exports to U.S.	23.0	25.7	28.6
Total Imports FOB	204.3	226.9	246.3
Imports from U.S.	24.5	27.0	29.0
Trade Balance	−25.6	−22.2	−13.9
Balance with U.S.	−1.5	−1.3	−0.4
Foreign Exchange Reserves	42.9	43.9	46.5

[1] Converted from British pound sterling (BPS) at the average exchange rate for each year.
[2] Data for 1995 are estimates based on available data through October 1995.
[3] GDP at factor cost.
[4] No sectoral data is available for 1995. For 1993 and 1994, sectors do not add to total due to treatment of net exports.
[5] Merchandise trade (does not include services).

Sources: U. K. Central Statistical Office, Bank of England.

1. General Policy Framework

The United Kingdom (UK) has a free market economy and a liberal financial services environment which encourage competition. Under a broad program of economic restructuring begun by Prime Minister Thatcher in 1979, 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 utilities equipment, broadcasting, and telecommunications.

As of year-end 1995, the economy is in its third year of recovery. The government refocused its economic policy after leaving the European Union (EU) Exchange Rate Mechanism (ERM) at the beginning of 1993. Low inflation with sustainable growth is now the primary goal. Inflation at the retail level fell to only 1.6 percent in 1993, but has since rebounded to an estimated 3.5 percent for 1995—at the top of the range acceptable to the government. Economic growth was exceptionally strong in 1994—almost 4 percent—but has moderated to a likely annual rate of 2.5 to 2.7 per-

cent in 1995. The unemployment rate fell below 10 percent in 1994 and has continued to fall to around 8.5 percent for 1995. While high by U.S. standards, the UK unemployment rate is low compared to most of continental Europe.

Fiscal Policy: The 1990–92 recession substantially increased cyclical spending on unemployment benefits and reduced revenues. These developments, combined with 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, in 1994 the government initiated a series of stringent fiscal measures to take effect over the next three fiscal years. Progress in meeting fiscal targets has been mixed. The 1996 budget is expected to include additional spending cuts sufficient to meet deficit reduction targets while allowing a reduction in the basic income tax rate.

The Conservative government has set a goal of reducing the basic personal income tax rate to 20 percent. Current tax rates are 20, 25 and 40 percent, but the government's 1996–97 Budget announced November 28 calls for the basic rate to be reduced from 25 to 24 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 is 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 in the banking system.

2. Exchange Rate Policies

The UK withdrew from the ERM in January 1993, 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 a level of 92 in 1992 to 76 in early 1993 as the UK exited the ERM. It has since recovered and stayed around 84 for most of 1995. The US dollar/British pound sterling exchange rate fluctuated in the 1.57 to 1.59 range for most of 1995.

3. Structural Policies

The UK economy is characterized by free markets and open competition, and the government also promotes these policies within the European Union and in international trade fora. 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. 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 16 years, Conservative governments pursued growth and increased economic efficiency through structural reform, principally privatization and deregulation. The financial services and transportation industries were deregulated. The government sold its interests in the automotive, steel, coal mining, aircraft and air transportation sectors. Electric power distribution and water supply utilities were also privatized. Electric power generation, rail transportation and local bus transportation are in the process of privatization. Subsidies were cut substantially, and capital controls lifted. Employment legislation significantly increased labor market flexibility, democratized unions, and increased union accountability for the industrial acts of their members.

Although these structural policies have achieved substantial economic results, some segments of the economy have still not recovered. The UK's low labor costs and labor market flexibility are often credited as major factors influencing the country's success in attracting foreign investment. Social welfare programs and the business community are still adjusting to job losses and changes in the business climate resulting from deregulation and privatization.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries. The British Government is an active but cautious participant in the development of a coordinated developing country debt strategy. British banks are prominent members of bank advisory committees on developing country debt and debt of former Communist coun-

tries. 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 and open market policies make it relatively easy for U.S. exporters to enter UK markets, some barriers still remain in utilities procurement and telecommunications.

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 EU over foreign suppliers.

Telecommunications: The UK possesses what is arguably the world's most open and liberalized telecommunications market. With virtually no restrictions on foreign participation combined with a strong pro-competition policy on the part of the government, U.S. companies have made strong inroads since the market was opened to competition in 1991. A number of U.S. companies are involved in all areas of the telecommunications sector. The long-distance trade took off in the fall of 1994 with the U.S.-UK declarations of mutual equivalence for purposes of international signal resale. This long-awaited move, combined with UK approval of several major licenses for U.S. firms, eliminated the remaining major bilateral irritants and provided a significant boost to U.S. companies. The one remaining barrier is the refusal of the UK to grant international-based facilities licenses which would allow U.S. companies to build their own facilities for international services rather than lease circuits from other operators.

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 the U.S. Agency for International Development—for projects in developing countries. Occasionally the United States objects to financing offered for specific projects.

The UK's development assistance program also has certain "tied aid" characteristics. 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 U.S. 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 copyright system and permitted the UK to join the most recent revised text of the Berne Convention. The United Kingdom's positions in international fora are very similar to those of the U.S. positions.

8. Worker Rights

a. The Right of Association.—Unionization of the work force in Britain is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively.*—Over 10 million workers, about 38 percent of the work force, are organized. Employers are not legally required to bargain with union representatives. However, they are legally barred from discriminating based on union membership (except in the armed forces, police force, or security services where union membership is prohibited). The 1993 Trade Union Reform and Employment Rights Act limited that prohibition under certain special circumstances in matters short of dismissal.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract.

During the 1980s, Parliament eliminated immunity from prosecution in secondary strikes and in actions with suspected political motivations. Actions against subsidi-

aries 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		14,320
Total Manufacturing		27,247
Food & Kindred Products	3,327	
Chemicals and Allied Products	4,560	
Metals, Primary & Fabricated	1,656	
Machinery, except Electrical	5,022	
Electric & Electronic Equipment	2,941	
Transportation Equipment	3,201	
Other Manufacturing	6,539	
Wholesale Trade		5,564
Banking		4,983
Finance/Insurance/Real Estate		42,494
Services		5,034
Other Industries		2,602
TOTAL ALL INDUSTRIES		102,244

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

UZBEKISTAN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (percent)	−2.4	−2.6	−0.6
GDP (at current prices)[2]	4,428	56,828	9,599
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Energy and Water	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Construction	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
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	N/A	80	427
Per Capita GDP (US$)[3]	N/A	960	N/A
Labor Force (000s)	10,631	10,800	11,097
Unemployment Rate (percent)	0.2	0.2	0.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	N/A
Base Interest Rate[4]	N/A	N/A	125
Personal Savings Rate	N/A	N/A	N/A
Retail Inflation	867	1,380	120
Wholesale Inflation	1,033	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (US$/som):[5]			
Official	0.00095	0.04	0.033
Parallel	0.00098	0.026	0.025
Balance of Payments and Trade:			
Total Exports (FOB)	2,205	2,690	2,700
Exports to U.S.	7	14	N/A
Total Imports (CIF)	2,667	2,610	2,273
Imports from U.S.	73	90	N/A
Aid from U.S.	8.9	19	11.5
Aid from Other Countries	N/A	38.5	41
External Public Debt	N/A	1,500	N/A
Debt Service Payments (paid)	N/A	600	N/A
Gold and Forex Reserves	N/A	1,200	2,000
Trade Balance	−462	80	427
Trade Balance with U.S.	−66	−76	N/A

[1] 1995 figures are estimates based on data available in October 1995, unless otherwise indicated.
[3] Figures for GDP are in billions of current som for 1993 and 1994, and estimated in dollars for 1995.
[3] Per Capita GDP figures are as estimated by the World Bank using the Purchasing Power Parity (PPP) method.
[4] The base interest is the rate at which the Central Bank was lending to commercial banks (officially, 7% per month) on October 1, 1995.
[5] Exchange rates are averages in dollars/ruble for the first 10 months of 1993 (i.e., before the introduction of the som-coupon), actual figures for the end of 1994 in dollars/som, and estimated average for 1995 (in dollars/som).

Source: Uzbekistan State Committee on Statistics, World Bank, IMF and Embassy estimates.

1. General Policy Framework

Since independence in 1991, Uzbekistan has been engaged in an 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 a slower and more centrally-managed reform process than in some other former Soviet republics. Although restructuring of the economy and the weakening of trade links with the other former republics has resulted in a declining GNP, the decline has been slower than in some of the other republics, averaging about three percent per year over the past three years.

Uzbekistan's economy is primarily based on agriculture and agro-processing, which account for about half of GNP. Uzbekistan is the world's fourth largest producer (second largest exporter after the U.S.) of cotton. 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 seventh largest producer of gold and has rich reserves of uranium, copper, silver, molybdenum, and other minerals. It is a net exporter of natural gas. Uzbekistan's oil production has

increased three-fold since independence, and the government hopes to achieve self sufficiency in petroleum in 1996.

Uzbekistan is slowly shifting the direction of its trade away from total reliance on the countries of the former Soviet Union. Trade with the CIS still accounts for about 50 percent of Uzbekistan's total trade (chiefly cotton exports and oil imports but also machinery and other inputs for Uzbekistan's factories). Imports from Russia are decreasing rapidly as Uzbekistan's oil production grows. Although Uzbekistan is a net exporter of fruits and vegetables, it has imported large quantities of wheat each year, including some from the United States. Wheat production has more than doubled since independence, and Uzbekistan claims it will reach self sufficiency in wheat in 1996. Aside from wheat and petroleum, other major imports include meat, sugar, machinery and consumer goods.

Fiscal Policy: During 1994 and 1995, the Government of Uzbekistan sharply cut consumer subsidies on foodstuffs and services, and sharply cut subsidized credit to industrial enterprises. As a result, the budget deficit fell from almost 16 percent of GDP in 1993 to 5.7 percent in 1994, to an estimated 3.3 percent for 1995. Main revenue earners include the enterprise profit tax (24.2 percent of total revenues), value-added tax (15.7 percent of revenues), and excise taxes, chiefly on cotton (26.2 percent of revenues). Large expenditures on social costs (including education, health, subsidies on public services, and allowances for children and students) drive the budget deficit. The deficit has been covered primarily by borrowing from abroad (51 percent) and the commercial banking system (22 percent), and revenue from privatization of state enterprises (16 percent).

Monetary Policy: Uzbekistan introduced a transitional currency, the som-coupon, upon its exit from the ruble zone in December 1993. It then issued the new som currency in July 1994. Inflation, fueled by subsides and the budget deficit, was almost 800 percent in 1993. Inflation exceeded 1200 percent for 1994, but eased in the second half as the Government took stronger measures to rein in inflation. Inflation ran at 16–17 percent per month in January-February 1995, but has since fallen sharply, and the IMF estimates it will be 120 percent for 1995. The government's main monetary tools in combating inflation include tight administrative controls on the circulation of currency and withdrawals from bank deposits, cutbacks in credit to state enterprises, a sharp increase in the discount rate (to over 300 percent at one point in 1995), and increases in savings deposits rates. The Ministry of Finance plans to issue high-interest short term treasury bill-like instruments in the near future.

2. Exchange Rate Policies

Uzbekistan unified its official and commercial exchange rates in late 1994, and there has been one legal commercial rate for most of 1995. The commercial rate is used for all government and the vast majority of business transactions. It 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. In October 1995, the government established a second rate, exclusively for small-scale, individual transactions through exchange booths. The government says this rate, about 35 percent above the commercial rate, is a temporary measure. A parallel, or "black" market exists but has become hard to find over the past year as the government has expanded availability of hard currency through legal channels and prosecuted the black market dealers more vigorously. At the beginning of November, the rate at this market was about on a par with the exchange booth rate.

Uzbekistan's investment law protects the right to fully and freely repatriate profits in hard currency. In the past, foreign exchange for export-import transactions was very hard to obtain, and many foreign businesses relied on barter or countertrade arrangements to repatriate profits. Availability of foreign exchange through the Republican currency exchange has been enormously expanded over the past year, from $112 million in 1994 to over $1 billion during the first ten months of 1995, easing this problem considerably. Nevertheless, local and foreign businessmen still complain about delays in obtaining foreign exchange for trade transactions. Residents and companies can have hard currency bank accounts, but thirty percent of hard currency revenues from exports must be sold to the government at the official exchange rate.

During 1994 and early 1995, there were strict limits on the amount that a resident of Uzbekistan could buy from the exchange booths, and lack of foreign exchange at the booths made it difficult to obtain even those amounts. In June 1995, all restrictions on purchases were lifted, but availability remained limited. Foreign currency became more freely available to individuals after the establishment of the new personal exchange rate in October.

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 (50 percent of production must still be sold to the government at fixed prices) and cotton (60 percent must be sold to the government at fixed prices). However, the government still exercises a strong influence on pricing and marketing policies because it controls a major share of industrial production, transport infrastructure and the distribution network. The government is still the predominant exporter and importer of agricultural commodities (primarily cotton exports and wheat imports) and capital goods.

Tax Policies: Tax policies are confusing and often ill-administered. The Value-Added Tax is 18 percent, but is applied irregularly. Business firms pay either a 38 percent profits tax (which includes wage costs in the tax base) or an 18 percent income tax (chiefly for small, privately-owned firms), but there are numerous incentive deductions and tax holidays for joint ventures, newly-privatized firms and other purposes. After being suspended for two years, import duties were reinstated as of October 1, 1995. Duties range from 10 percent for foodstuffs to 100 percent for new automobiles, with most goods in the 10–30 percent range. There is also an extensive system of export taxes, designed to raise revenue (as in the 50 percent export duty on cotton) and to discourage the export of foodstuffs and other consumer goods deemed essential. Both the explicit export tax and the implicit tax on cotton (via the lower price for state order cotton) are a disincentive to export. Uzbekistan has a graduated personal income tax, but the current top marginal rate of 40 percent takes effect at a relatively low level of income by western standards. Undercollection of all taxes is a major problem in Uzbekistan.

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 planning 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 very low foreign debt, although the actual amounts (and thus debt/export and other ratios) are not public. Uzbekistan principally relied on short term commercial debt, collateralized by its gold reserves or cotton, during its first two years of independence. In 1994–95, it began to take more mid and long-term debt, including loans from the IMF, World Bank, U.S. EXIMBANK and other countries' export credit agencies. 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, EBRD, and Asian Development Bank (August 1995). The World Bank approved a $21 million technical assistance loan for Uzbekistan in 1994, and a $160 million rehabilitation credit and a $75 million cotton loan for Uzbekistan during 1995. Further loans for enterprise restructuring and environmental assistance are in the works. The EBRD has made loans totalling $112.2 million to Uzbekistan. The IMF approved a $148 million Strategic Transformation Facility (STF) for Uzbekistan in February 1995, and reach an agreement in principle with Uzbekistan on a $185 million standby credit in December 1995.

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: Government officials say they would like to increase foreign companies' limited involvement in the services sector. Under the current regulatory regime, foreign banks must be registered by the Central Bank and are permitted to have representative offices and hold a minority investment in commercial bank joint ventures. Currently, there are only two foreign joint venture banks in

Uzbekistan, but several foreign banks are negotiating to set up joint venture banks. The original monopoly of the national tourist company (UzbekTourizm) is gradually being eroded, but the company still controls all large hotels in the country. The national airline (Uzbekistan Airways) still has a monopoly on domestic air travel. Several foreign accounting and law firms operate, providing services to the government, foreign and local business and foreign aid organizations. Foreign insurance companies are limited to participation in joint ventures, which must be registered by the state insurance company.

Standards, Testing, Labelling, and Certification: Uzbekistan inherited many standards and testing requirements from the Soviet Union, but often they are disregarded. Ministries sometimes issue regulations 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 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 cumbersome foreign exchange regulations.

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. In the Bilateral Investment Treaty (BIT) which Uzbekistan signed with the United States in December 1994, and which awaits ratification by the U.S. Senate, Uzbekistan reserved the right to exempt the following sectors from national treatment: uranium-related industries, air and rail transport, pipelines, customhouse brokers, government subsidies, radio and television broadcasting, military use items, and the narcotic crop industry.

Government Procurement Practices: Over 60 percent of Uzbekistan's trade with the states of the former Soviet Union is governed by bilateral government-to-government 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. Non-competitive bidding is still common, with trade deals often based on relationships between government officials and foreign firms. However, the government has contracted with an American accounting firm to offer advice on tender procedures for foreign procurement and investments.

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. Many 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. 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 World Trade Organization (WTO) observer, and it has applied for full WTO membership.

7. Protection of U.S. Intellectual Property

Uzbekistan is a signatory of the Paris Convention on Industrial Property (1993), the Patent Cooperation Treaty, and the Madrid Agreement on Trademarks Protection. It joined the World Intellectual Property Organization in 1993. Copyright and trademark violations are not uncommon in Uzbekistan, particularly involving western films, music cassettes, computer software, and clothing trademarks.

8. Worker Rights

a. *The Right of Association.*—Uzbekistan law specifically proclaims that all workers have the right to voluntarily create and join unions of their choice. It also pro-

vides that trade unions themselves can voluntarily associate by territory or sector, 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 after independence. 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 "voluntary" exodus (usually for two-four weeks) of many students and government workers to rural areas to help with the cotton harvest for low wages is an annual phenomenon.

d. *Minimum Age for Employment of Children.*—The official minimum working age is 16; however, 15-year olds can work with permission, but have a shorter work day. In addition, much younger children work with their families on farms or participate in street trade.

e. *Acceptable Conditions of Work.*—The work week is set at 41 hours. Some workers are entitled to overtime pay, but rarely receive it. Hyperinflation and economic decline have sharply reduced the purchasing power of workers' salaries, and delays in payment of wages are not uncommon. 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.*—Post is unaware of any differences between sectors with and without U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
GDP (at current prices)[2]	258	282	291
Real GDP Growth (percent)	6.0	7.4	0
GDP by Sector (percent of GDP):			
Agriculture	8.7	8.3	8.5
Manufacturing	30.7	29.7	29.2
Mining	2.1	1.9	1.9
Services	50.4	51.6	52.0
GDP Per Capita (US$)	7,685	8,281	8,433
Labor Force (000s)	13,857	13,992	14,850
Unemployment Rate (pct—May)	9.9	10.8	18.6
Money and Prices:			
Money Supply Growth (M2) (pct)[3]	38.6	12.5	−1.3
Commercial Interest Rates on 180 Day Deposits[3]	7.8	8.7	10.0
Savings Rate (pct of GDP)	16.4	17.6	19.1
Wholesale Inflation[3]	0.1	5.8	7.5
CPI, percent change[3]	7.4	3.9	3.0
Exchange Rate (US$/peso)[4]	0.999	1.0	1.0
Balance of Payments and Trade:			
Total Exports (FOB)[5]	13.1	15.7	21.7
Exports to the U.S. (FOB)	1.3	1.8	2.0
Total Imports (CIF)	16.8	21.5	20.2
Imports from the U.S. (FAS)[6]	3.8	4.5	4.2
Aid from the U.S.	N/A	N/A	N/A
External Public Debt[7]	62.8	70.1	80.0
Debt Service Payments[8]	4.2	3.3	5.5
Gold and Forex Reserves	15.0	15.5	13.5
Trade Balance	−3.7	−5.8	1.5
Balance with the U.S.[6]	−2.6	−2.8	−2.7

[1] Figures for 1995 are 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 1991–1994 real GDP growth averaged nearly eight percent annually. However, due to the continuing effects of the Mexican peso crisis, growth in 1995 should be flat. In late 1995 the annual rate

of increase for consumer prices was around two percent—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 resulted in a boom in imports, particularly from the United States. In 1994 Argentina's trade deficit with the United States was $2.7 billion, 46 percent of Argentina's overall deficit that year. The value of U.S. exports to Argentina declined slightly in 1995 because of lower domestic demand—a result of the recession. At the same time, Argentina registered an overall surplus for the first time since 1991, largely because of significant growth in exports.

The public sector budget is expected to run a deficit in 1995 of $2.5 billion, about one percent of GDP. Argentina's financial system was adversely affected by aftershocks of the crisis in Mexico; one consequence was a drop in the number of Argentina's financial institutions, from 205 in December 1994 to 164 in September 1995. The government reacted to the crisis decisively, with considerable support from international financial institutions.

The burden on consumers and businesses grew in 1995 via increases in the VAT (from 18 to 21 percent) and lack of affordable credit. Tax enforcement has improved, but evasion is still a major problem. Continued heavy expenditures and low tax revenues threaten to generate another deficit in 1996.

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991, the exchange rate of the Argentine peso is fixed to the dollar at par value. Through the first 10 months of 1995, the Central Bank's international reserves decreased from $15.5 billion to $13.4 billion.

Argentina became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

Argentina has no exchange controls; customers may freely buy and sell currency from banks and brokers at market prices. The Central Bank buys and sells dollars at a rate of one peso per dollar.

3. Structural Policies

The Menem Administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and exposed to international competition. The government's role in the economy has diminished markedly through the privatization of most state firms, including the large oil firm YPF in 1993. Meanwhile, the authorities have eliminated price controls on all but a few goods in the marketplace. Nevertheless, the expanded trade deficit through 1994 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. In 1995, in spite of the trade surplus, the government increased duties on apparel and issued new ones on athletic footwear, claiming these items, particularly those made in China, were being dumped in Argentina.

Argentina, Brazil, Paraguay and Uruguay officially established a customs union (MERCOSUR) on January 1, 1995 with a common external tariff (CET) covering 85 percent of traded goods, but excluding capital goods, information technology, and telecommunications equipment. The CET ranges from zero to 20 percent.

The government of Argentina signed the Uruguay Round Agreements in December 1993. Congress ratified the Agreements at the end of 1994. Argentina was a founding member of the World Trade Organization.

4. Debt Management Policies

Argentina's foreign currency external public debt increased in 1995 to almost $80 billion, due to new borrowing in capital markets and lending from international financial institutions (IFIs). Debt service payments will total $9.3 billion in both 1995 and 1996. From 1989 to 1994 Argentina's debt service fell from 101 percent to around 50 percent of exports of goods and non-factor services.

The International Monetary Fund (IMF), World Bank, and Inter-American Development Bank (IDB) have been major sources of funds to Argentina. In 1995 the government renewed an IMF Extended Fund Facility (EEF) arrangement, initiated in 1992, through 1996.

5. Significant Barriers to U.S. Exports

Trade Barriers: 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 had slashed the average

tariff from nearly 29 percent to less than 10 percent. While Argentina strove to maintain minimal tariffs during negotiations on the MERCOSUR common external tariff (CET), in order to facilitate renovation of its industrial plant, which requires continued imports of capital equipment and other inputs, the implementation of the CET has meant that Argentina's average tariff is now closer to 12 percent. Argentina continues to maintain restrictions that apply to imports of a broad range of used and manufactured equipment.

Despite the generally favorable environment for imports, the authorities continue to resort to trade barriers. To help raise revenue in the midst of the Mexican crisis, the government raised the tariff on capital goods—which account for over 40 percent of U.S. exports to Argentina—from zero to 10 percent in March 1995, and re-imposed a statistical tax of three percent on all imports. 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.

As noted above, the government also moved in September 1995 to increase the "specific duties" applied to apparel and athletic footwear, in an effort to protect some sectors from import competition. Some U.S. firms claimed the measures seriously affected their exports to Argentina.

In October 1994, following passage by Argentina's congress 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. (President Menem vetoed other sections of the bill, including authority for the National Film Institute to regulate the release of foreign films and establish a six month minimum timeframe between opening of a film in the theater and its video release.)

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 plans to dismantle the protection scheme by 2000, when a common MERCOSUR auto policy is scheduled to take effect.

Service Barriers: The government has progressively eliminated restrictions on foreign-owned banks. In January 1994 the authorities formally abolished the distinction between and foreign and domestic banks. The government allowed foreign banks to open branches and began issuing new licenses. 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 require no government approval. There are no restrictions on repatriation of funds.

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.

During 1995, several U.S. firms alleged that Argentina had violated its obligations under the BIT. The U.S. government is working with the affected companies to resolve these issues. The treaty allows investor-state arbitration using the International Center for the Settlement of Investment Disputes.

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 in 1994 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 Conven-

tion, 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 it signed the Uruguay Round Agreements in December 1993, including the TRIPs text. However, reform of Argentina's patent system has been a contentious bilateral issue.

Patents: In 1991 the Menem Administration submitted to congress a draft patent law designed to improve overall patent protection and extend it immediately to pharmaceuticals. After years of intermittent debate, congress passed a watered down version in March 1995 with an eight year transition period for pharmaceuticals and broad scope for compulsory licenses. President Menem vetoed the legislation and replaced it with a decree that would have authorized pharmaceutical patenting in January 1996 and generally provided stronger patent production than is called for in TRIPS, thus meeting most U.S. concerns.

However, in May 1995 Congress overrode President Menem's veto and restored its patent law, which was subsequently revised by "corrective legislation" that reduced the pharmaceutical transition period to five years. Menem issued patent law regulations in October 1995, but Congress objected, claiming they superseded protection provided for by legislation. In early December, Congress passed new legislation annulling the regulations; President Menem then vetoed part of the new legislation.

Copyrights: Argentina's copyright law, enacted in 1933, is adequate by international standards. Recent decrees provided protection to computer software and extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, 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 secret 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. *The Right of Association.*—All Argentine workers, except military personnel, are free to form unions. Union membership is estimated at 30–40 percent of the workforce. Unions are independent of the government or political parties, although most union leaders are affiliated with President Menem's Justicialist Party. Unions have the right to strike and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively.*—Argentine law prohibits anti-union practices. The trend towards bargaining on a company level, in contrast to negotiating at the national level on a sectoral basis continued, but the adjustment has not been easy for either management or labor. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced labor, and there were no reports of such incidents during 1995.

d. *Minimum Age for Employment of Children.*—The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. The law is effectively enforced except in some isolated rural areas where government monitoring capabilities are thin.

e. *Acceptable Conditions of Work.*—The national monthly minimum wage is $200. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum work day is eight hours, and work week 48 hours. The government has enacted reforms aimed at giving small and medium enterprises greater flexibility in the management of their personnel. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. Rights in Sectors With U.S. Investment.—Argentine law does not distinguish between worker rights in nationally-owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S.-owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		773
Total Manufacturing		2467
Food & Kindred Products	1,188	
Chemicals and Allied Products	561	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	42	
Electric & Electronic Equipment	54	
Transportation Equipment	48	
Other Manufacturing	(1)	
Wholesale Trade		530
Banking		627
Finance/Insurance/Real Estate		756
Services		92
ther Industries		422
TOTAL ALL INDUSTRIES		5,666

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

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

THE BAHAMAS

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP	3,065	3,408	N/A
GDP Growth Rate (percent)	3.0	3.0	N/A
GDP by Sector (percent of total):			
Tourism	50	50	50
Finance	12	12	12
Manufacturing	4	4	4
Agriculture/Fisheries	4	4	4
Government	12	12	12
GDP Per Capita	11,610	12,483	N/A
Labor Force (thousands)	136.9	138.7	N/A
Unemployment Rate (percent)	13.1	13.3	N/A
Money and Prices:			
Money Supply (M1)	375.5	413.0	440.5
Commercial Interest Rate (pct)	7.25	6.75	6.75
Personal Savings Rate	3.0–5.8	3.0–5.0	3.1–5.2
Investment Rate	N/A	N/A	N/A
Retail Price Index (1987=100)	136.2	138.2	139.9
Retail Price Index (pct change)	2.7	1.3	2.3
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (US$:B$)	1.1	1.1	1.1
Balance of Payments and Trade:			
Total Exports (FOB)[2]	815	656	N/A
Exports to U.S.[2]	304	200	105

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Total Imports (CIF)[2]	3,454	2,846	N/A
Imports from U.S.[2]	775	754	437
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	110.7	100.4	92.7
Debt Repayment	72.2	77.5	85.0
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	163.3	173.6	N/A
Trade Balance[2]	−2,639	−2,190	N/A
Trade Balance with U.S.[2]	−471	−554	−332

[1] Statistics cover mid-year 1995.
[2] IMF Direction of Trade Statistics.

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 50 percent and 12 percent of gross domestic product (GDP) respectively. The agricultural and industrial sectors, while small, continue to be the focus of Government efforts to produce new jobs and diversify the economy.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas decreased from $704.1 million in 1993 to $685.4 million in 1994; imports from the U.S. account for approximately 55 percent of all 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 corporate income taxes. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamian Government enacted a policy in the 1995–1996 budget in which the annual amount of new borrowing would be no greater than the amount of debt retirement. The 1995–1996 budget provides for recurring expenditures of $725 million, an increase of $43 million. This includes $174 million for repayment of interest and principal on Government debt. Government borrowing will not exceed $85 million—the amount of repayment of principal on debt. The overall $819 million budget concentrates on upgrading tourism infrastructure, stabilizing public finances, maintaining the fixed exchange rate with the U.S.$, and strengthening the role of the private sector in the overall economy. No new taxes were added to this year's budget. Total national debt increased to $1.46 billion in 1994, up from $1.41 billion in 1993.

Recurrent revenue for 1995–1996 is projected at $655 million, representing an increase of $25 million over expected revenues of $640 million for the 1994–1995 fiscal year. The Government feels that this increase is attainable, as the economy continues to strengthen and capital inflow and revenue collection methods continue to improve.

Capital revenue is expected to include $12 million resulting from the sale of 50 percent of the Government's shares in The Bank of The Bahamas. The Government-owned National Insurance Board (NIB) will purchase 20 percent, while the remaining 30 percent of shares will be sold to the public.

In September, The Central Bank instituted a "credit squeeze" to control public spending. This action was prompted by an increase of $44 million in private sector lending, and $68.1 million in consumer installment credit during the first seven months of 1995. As a result, the country's external reserves have plummeted from $209 million to $172.4 million over the past year. The Central Bank has subsequently advised banks and other financial institutions to exercise restraint in the further expansion of credit. The commercial bank's prime lending rate remained at 6.75 percent.

The Bahamas is not a member of the World Trade Organization (WTO).

2. Exchange Rate Policies

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1 to 1, and the Bahamian Government recently repeated its long-standing commitment to maintain parity.

3. Structural Policy

The Bahamas is recognized internationally as a tax haven and the government does not impose income, inheritance or sales taxes. In the 1994–95 budget, the Government lowered taxes on tourism-related items to increase the country's competitive edge in the tourism sector. The government also reduced stamp duty on cigarettes and various liquors, as well as perfume and other luxury items. The government wants merchants to pass these savings to tourist, yielding increased revenue from increased sales. The change was designed to safeguard employment in retail trade catering to tourists and promote the price competitiveness of goods in the Bahamian market.

At the same time, the government plans to establish a special unit within the Customs Department to strengthen its efforts to control smuggling of cigarettes and contraband. In the meantime, a system is being put in place to encourage the public to disclose information which could assist authorities in bringing to justice persons who engage in defrauding the Treasury.

Although The Bahamas encourages foreign investment, the Government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are eligible solely as joint ventures.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit which is refundable upon re-exportation. These include: fine jewelry, goods for business meetings or conventions, traveling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

In 1993 the Bahamian Government repealed the Immovable Property Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country. A new law, the Foreign Persons (Landholding) Act, provides for automatic approval for non-Bahamians to purchase residential property of less than five acres on any single island in The Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina.

The new law also provides for a two-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during the two years. Following protests by foreign property owners, the Bahamian Government revised plans for a proposed seven percent increase on the assessed value of undeveloped property owned by non-Bahamians. The new standard property tax structure as of January 1994 follows:

—first $3,000 of market value—$30.00
—over $3,000 and not exceeding $100,000 of market value—1 percent
—over $100,000 of market value—1½ percent.

In addition, the Government lowered the rate of stamp duty on real estate transactions in the 1995–1996 budget. The stamp duty reduction ranges from two percent on transactions up to $20,000 and eight percent on transactions over $100,000. The Bahamian Government hopes the new legislation and the stamp tax reduction will stimulate the second home/vacation home market and revive the stagnant real estate sector.

To increase revenues, the government raised the airport departure tax from $7 to $13 per person in 1991 and from $13 to $15 per person in 1993, and the harbor departure tax from $7 to $20 per person. Following protests from cruise ship operators, the harbor departure tax was later lowered to $15, effective April 1, 1992. The Bahamas government also levies a gambling tax.

Price controls exist on 13 basic foodstuffs, as well as gasoline, utility rates, public transportation, automobiles, and auto parts. The rate of inflation is estimated at 2.2 percent.

4. Debt Management Policies

The Bahamas' national debt was $ 1.47 billion in 1994, with a total debt service of $ 174 million, including $ 89 million in interest payments and $85 million in repayments.

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 produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient

supply of locally grown items exits. The Government's quality standards for imported goods are similar to those of the United States.

6. Export Subsidies Policies

The Bahamas Investment Authority (BIA), a "one-stop shop" for foreign investment, was established in 1992, comprising 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—simplifies procedures and reducing costs for incorporating companies.

—The Industries Encouragement Act—provides duty exemption on machinery, equipment, and raw materials used for manufacturing. The approved goods are not subject to an export tax.

—The Hotel Encouragement Act—grants refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels.

—The Agricultural Manufacturers Act—provides exemption for farmers from duties on agricultural imports and machinery necessary for food production.

—The Spirit and Beer Manufacturers Act—grants duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in 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.

7. Protection of U.S. Intellectual Property

Although local intellectual property laws exist, enforcement is generally weak. The Bahamas is a member of the World Intellectual Property Organization (WIPO), but is not a member of the WTO. The Bahamas 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. Workers Rights

a. *The Right of Association.*—The Constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or Government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *The Right to Organize and Bargain Collectively.*—Workers are free to organize and collective bargaining is extensive for the 34,225 workers (25 percent of the work force) who are unionized. Collective bargaining is protected by law and the Department 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 Bahamas Department 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 Department normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to re-employment after childbirth. Workers Rights legislation applies equally to all sectors of the economy.

f. Rights in Sectors With U.S. Investment.—Authorities enforce labor laws and regulations uniformly for all sectors and throughout the economy, including within the export processing zones.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		56
Total Manufacturing		7
Food & Kindred Products	0	
Chemicals and Allied Products	7	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		150
Banking		1,890
Finance/Insurance/Real Estate		1,214
Services		−125
Other Industries		68
TOTAL ALL INDUSTRIES		3,260

[1] Indicates a value between $-500,000 and $500,000.

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

BARBADOS

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	1,113.6	1,158.2	1,173.2
Real GDP Growth (percent)	0.8	4.0	1.3
GDP (at current prices)[5]	1,395.6	1,462.0	N/A
GDP by Sector:			
Agriculture	80.8	74.8	N/A
Energy and Water	53.2	52.3	N/A
Manufacturing	103.3	104.0	N/A
Construction	60.5	66.9	N/A
Rents	N/A	N/A	N/A
Financial and Related Services	218.6	235.8	N/A
Other Services	617.2	658.0	N/A
Government Services	254.6	261.4	N/A
Net Exports of Goods and Services	85.3	136.9	N/A
Real Per Capita GDP ('85 bps)	4,220	4,375	N/A
Labor Force (000s)[3]	126.3	N/A	N/A
Unemployment Rate (percent)	24.5	22.5	[4] 20.5
Money and Prices (annual percantage growth):			
Money Supply Growth	1.5	7.7	N/A
Weighted Av. Lending Rate	11.2	11.5	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	1.1	0.1	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (pct)[6]	3.7	N/A	N/A
Exchange Rate (BB$/US$)	2.0	2.0	2.0
Balance of Payments and Trade:			
Total Exports, FOB[7]	187.0	181.5	N/A
Exports to U.S.	33.5	33.2	N/A
Total Imports, CIF	577.1	614.3	N/A
Imports from U.S.	215.3	244.2	N/A
Aid from the U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A
External Central Government Debt	352.3	355.1	N/A
Debt Service Payments (paid)	162.3	144.7	N/A
Foreign Exchange Reserves	69.9	128.7	195.7
Trade Balance[7]	−390.0	−432.8	N/A
Balance with U.S.[7]	−181.8	−211.0	N/A

[1] All 1995 figures are estimates based on available monthly data in November 1995.
[2] Figures are actual weighted average rates, not changes in rates.
[3] Labor force figures will be recalculated for the 1987–1993 period in 1996, based on the 1990 Census.
[4] Estimate for June 30, 1995.
[5] GDP at factor cost.
[6] Percent change from previous year.
[7] Merchandise trade.

1. General Policy Framework

Barbados is a British-style parliamentary democracy. The are three major political parties in Barbados: the Barbados Labour Party (which forms the current government), the main Opposition Democratic Labour Party, and the National Democratic Party. Elections were last held in September 1994; although elections can be called at any time, the maximum term is five years, and elections are not scheduled before 1999.

The economy of Barbados is generally market-oriented, although a fairly large public sector exists. The pro-business government of Prime Minister Owen Arthur has aggressively moved to promote foreign direct investment, as a part of fulfilling its pledge to reduce unemployment (which stood at almost 20 percent at the end of September 1995). The Barbados economy continued to grow during 1995, although at a much slower rate than during 1994. The Central Bank of Barbados forecasts that output will grow 1.3 percent in 1995, down from the 4.0 percent growth rate recorded in 1994. However, unlike 1994's growth, which was concentrated in the foreign exchange-earning sectors (tourism, sugar, and manufacturing), 1995's expansion was domestically-driven. The growth in demand was of concern to Central Bank officials, as a sharp increase in credit to the private sector was largely used to purchase imported consumption (not investment) goods, using scarce foreign exchange.

In order to stem the pressure on foreign exchange, the Central Bank acted in November 1995 to reverse credit-liberalizing actions taken in April, by tightening monetary policy and raising both the reserve requirement and the discount rate to commercial banks. The change in policy forces banks both to increase interest rates on loans (decreasing the amount of credit available) and to increase the rate paid on deposits (attracting deposits and decreasing the money supply). The eventual effect of these recent measures could, in the absence of other factors, reduce demand for imports in general (including those from the United States). However, once the forthcoming value-added tax (VAT) is implemented (scheduled for mid-1996), demand for imported goods should rise as retail prices decline when they no longer reflect the cascading effect of indirect taxation.

The Central Bank estimates that the 1995 central government fiscal deficit will be 0.8 percent of GDP ($11 million), compared to 2.0 percent of GDP ($37.3 million) in 1994. Barbados - 3 Current revenue grew significantly during the first nine months of 1995; however, so did current expenditures, which rose due to higher current outlays on interest payments, wages and salaries, and transfers. On the other hand, outlays on capital works, which rose by about 3 percent in the same period

of 1994, fell 16.9 percent, in the absence of major public sector projects. During the first nine months of 1995, heavy amortization payments (due to lumpy payment schedules) led the Government to refinance its debt. Commercial banks financed most of the Government deficit, which allowed the Central Bank to reduce its outstanding credit to the government.

The net international reserves of the Central Bank are expected to rise by $33.5 million during 1995—a solid performance but not as good as in 1994, when reserves rose $58.7 million. In contrast to 1994, when there were considerable inflows of foreign funds to the government, the slowdown in 1995 is due to heavy amortization payments on government indebtedness; the current account will also come under pressure because of the higher import growth.

Barbados became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

Successive governments of Barbados, representing both of the major political parties, have committed themselves to keeping the Barbados dollar pegged to the United States dollar at a rate of Bds.$2.00=USD 1.00. This rate, which has remained fixed since the end of 1975, has had the effect of making Barbados' exports more expensive, and therefore less price-competitive, in its export markets.

Barbados maintains a wide variety of exchange control measures, to protect the country's foreign exchange reserve balances. However, there is no parallel market for hard currencies, as the tourist market provides a steady and adequate supply of foreign exchange and U.S. dollars are readily accepted as payment for most purposes. Since coming into office in September 1994, the government of Prime Minister Owen Arthur has liberalized exchange controls to allow local banks to issue credit cards which can be used domestically and internationally, and has increased the amounts of foreign exchange residents can purchase.

Businesses usually can obtain foreign exchange for imports on showing the proper invoices and Customs documentation to government officials, but business and vacation travelers face annual limits on the amounts of hard currency they can purchase without special application to the Central Bank. Exporters must also complete certain documentation to ensure that payment for the exports is collected through authorized local commercial banks; Barbadian residents are not permitted to hold foreign bank accounts. Non-residents investing in Barbados must register any foreign funds brought into the country in order to be able to repatriate capital gains, profits, or dividends.

3. Structural Policies

Because Barbados imports much of what it consumes, there is significant potential for exports of U.S. goods and services. Import licenses are required for a list of goods, some of which are also produced locally or within the Caribbean Community (CARICOM) region; prices are generally set by the market, except for those of some household appliances and food staples. The Price Control Division of the Ministry of Industry, Commerce and Business Development administers both price controls and import licenses.

During 1992–1993, the Barbados government initiated efforts to reform the tax system by broadening the tax base, lowering rates, and moving away from indirect taxation. A value-added tax (VAT), set at a flat 15 percent rate, is due to be implemented in mid-1996. The government intends for the VAT to replace a wide variety of taxes and fees, including the consumption tax (which ranges from zero to 49 percent) and the stamp duty (20 percent) on imports, the surcharge on overseas telephone calls (10 percent), the travel ticket tax (20 percent, with a maximum of $400), and at least five other levies.

Import duties (ranging from zero to 70 percent) continue, as does a 100 percent surcharge on certain luxury items and an excise tax on liquor and cigarettes. Implementation of the CARICOM common external tariff means that the preference Barbados gives to goods from other CARICOM members will widen, relative to the applied tariffs applicable to goods from countries outside the Community (such as the U.S.).

4. Debt Management Policies

Central government debt rose from $1,161 million at the end of 1993 to $1,244 million at the end of 1994, but debt service payments dropped from $162 million to $145 million. At the end of of 1994, almost 29 percent of national debt was owed to external sources, a ratio which has declined steadily over the 1990–1994 period (from almost 46 percent at the end of 1990). During the first half of 1995, the government recorded a fiscal surplus, but heavy foreign amortization payments caused it to turn to the market for financing. Local commercial banks, seeking a profitable

place to invest their excess funds, provided most of the financing, which allowed the Central Bank to reduce its accommodation to the government.

In financing projects, the government has also been relatively successful in obtaining financing from foreign commercial banks or other sources of commercial credit, albeit at relatively high interest rates. Barbados has been "graduated" from World Bank financing. At the same time, Barbados maintains ties to the Inter-American Development Bank and the Caribbean Development Bank, which provides lending for various environmental and social programs.

5. Significant Barriers to U.S. Exports

The CARICOM arrangement generally gives preference to goods produced within the CARICOM countries in comparison to those produced extra-regionally; in addition, certain goods cannot be imported from outside the region. The import licensing scheme also acts as a nontariff barrier, although its effect is probably relatively small.

Investment barriers: Barbados permits full ownership by foreign nationals of investments and property, and foreign nationals, including U.S. citizens, own significant residential and commercial properties in Barbados. Non-residents need Central Bank approval to purchase real property and securities, but permission is routinely granted. A property transfer tax is levied on real property transactions conducted by foreigners; this tax also applies to securities transactions not conducted by a registered broker.

The government must approve a license in order for non-citizens to invest in utilities, broadcasting, banking, and insurance enterprises. However, the government has granted monopolies for both local and long-distance telephone service to a foreign firm, the UK's Cable and Wireless. Although the government has said that it is accepting applications for additional television stations, television service is currently provided by a monopoly, government-owned Caribbean Broadcasting Corporation. The Securities Exchange of Barbados lists mostly local companies (although listing is not restricted by nationality of the beneficial owners), but stock exchange membership (for traders) is closed to non-nationals. Food service franchises have not been approved for many years, regardless of the nationality of the potential franchiser, although the current government has committed itself to a review of that policy.

Professional services: Suppliers of professional services (medical doctors, lawyers, architects, engineers) must have their qualifications certified by local associations, and must also obtain a work permit certifying that no Barbadian could be found to perform the professional service required by the employer or contractor.

Government procurement: While no 'Buy Barbados' laws exist, the government usually gives preference to local, then regional sources. However, as many goods and services must be procured from outside of the region, U.S. manufacturers and distributors have a reasonable chance of competing for contracts against other foreign suppliers, especially if they have established links with local firms with a good relationship with the government.

Customs Procedures: Customs procedures are often alleged to be administered in a manner that is neither transparent nor predictable.

6. Export Subsidies Policies

The Government of Barbados provides special incentives to businesses producing products for export. Companies agreeing to export all of their production can receive tax incentives, exemption for import duties, assurances for full repatriation of capital, profits, and dividends, subsidized rents in government owned industrial parks; and cash grants for worker training. In addition, industrial users of utilities are eligible for discounts.

The tourism industry benefits from advertising and promotion efforts by Government through the Barbados Tourism Authority, but those are not generally considered as export subsidies.

7. Protection of U.S. Intellectual Property

Barbados is a signatory to the GATT Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPs). It has signed the Paris Convention on Industrial Property and is a member of the World Intellectual Property Organization. Laws regarding intellectual property are adequate, but enforcement is poor.

Trademarks: the Barbados law provides that whoever first registers a mark has the right to use the mark. There are cases where someone other than the original owner of the mark has registered it in Barbados, and therefore could demand royalty payments from the original owner.

Copyrights: the major problem is illegal copying of videotapes from promotional tapes provided by movie distributors or from U.S. hotel "pay-for-view" movies and

shows or from satellite transmissions. It is not known whether pirated videotapes are exported. In 1995, a local campaign to ensure royalties to Barbadian musicians brought a new awareness by the public of intellectual property issues.

Because the extent of intellectual property infringements is unknown, it is impossible to quantify the damage done in terms of lost export or investment possibilities.

8. Worker Rights

a. *The Right of Association.*—Workers freely exercise their right to form and belong to trade unions and to strike. However, with the exception of two brief strikes and a "work to rule" protest, labor peace is the norm.

In August 1995, a new umbrella congress of trade unions and staff associations was inaugurated, to which all Barbados-based unions belong. There are two major unions and several small ones, representing various sectors of labor. The largest union, the Barbados Workers' Union, was historically closely associated with the Democratic Labour Party (currently in opposition), but the main civil service union, the National Union of Public Workers, is completely independent of any political party. The law accords full protection to trade unionists' personal and property rights. A long-standing law prohibits strikes against public utilities, but all other private and public sector employees are permitted to strike. Trade unions are free to form federations and are in fact affiliated with a variety of regional and international labor organizations. The Caribbean Congress of Labor (CCL) has its headquarters in Barbados.

b. *The Right to Organize and Bargain Collectively.*—The law provides for the right to organize and bargain collectively, and the authorities respect it in practice. Recent losses of jobs in the economy resulted in a reduction in union membership to about twenty percent of the working population. Normally, wages and working conditions are negotiated through a collective bargaining process, although a tripartite wage policy accord signed in the summer of 1993 established a 2-year wage freeze which has since expired. Unions are currently in the process of bargaining for wage and benefit increases to be incorporated into the replacement wage and price policy accord of 1995.

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. While there is no specific law prohibiting antiunion discrimination, the courts provide a method of redress for employees alleging unfair dismissal. The courts commonly award monetary compensation but rarely order reemployment.

There are no manufacturing or special areas where collective bargaining rights are legally or administratively impaired. Barbados has no specially designated export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor, and there were no reported instances in 1995.

d. *Minimum Age for Employment of Children.*—The legal minimum working age of 16 is generally observed. Compulsory primary and secondary education policies, which require school attendance until age 16, reinforce minimum age requirements. Occasionally, especially among rural 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 may take legal action against an employer who is found to have underage workers.

e. *Acceptable Conditions of Work.*—The law sets a minimum wage for specific categories of workers. Only two categories of workers have a formally regulated minimum wage—household domestics and shop assistants (entry level commercial workers). Household domestic receive a minimum wage of about $32.50 per week, although the prevailing wage is almost double that amount. The minimum wage for shop assistants varies by the age of the employee: for adults, the minimum wage is $1.88 per hour, while for juveniles, it is $1.63 per hour. The minimum wage for shop assistants is marginally sufficient to meet minimum living standards; most employees earn more.

Agricultural workers receive a minimum wage as a matter of practice, but such compensation is not found in legislation. In 1992 an International Labor Organization (ILO) committee of experts cited Barbados for not adhering to the ILO convention on equal remuneration because of wage differentials in the sugar industry. The committee 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 year's end.

Barbados accepts ILO conventions, standards, and other sectoral conventions regarding maximum hours of work. The standard legal work-week is 40 hours in five days, and the law requires overtime payment for hours worked in excess of that. Employers must provide workers a minimum of 3 weeks' annual leave. Unemployment benefits legislation and national insurance (social security) cover all workers. A comprehensive government sponsored health program offers subsidized treatment and medication.

Under the Factories Act of 1983, 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 hazard job situations without jeopardizing their continued employment. The Factories Act requires that in certain sectors, firms employing more than 50 workers set up a safety committee. This committee can challenge the decisions of management concerning the occupational safety and health environment. Trade unions have called on the government to increase the number of factory inspectors in 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 and safety. The government has promised to undertake inspections of government-operated corporations and manufacturing plants as a priority.

f. *Rights in Sectors With U.S. Investment.*—Conditions do not differ significantly in foreign-invested sectors from those in the economy in general.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		98
Total Manufacturing		7
Food & Kindred Products	4	
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		225
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		488

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP Growth[3]	4.0	4.2	3.5
Nominal GDP[3 10]	7,059	7,100	7,350
GDP by Sector (percent):[3 9]			
Agriculture	16.27	16.37	16.0
Manufacturing	13.76	13.84	14.0
Trade & Services	27.50	27.32	27.5
Public Administration	9.01	8.87	8.9

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Mining	5.61	5.55	5.8
Transportation/Communication	11.06	11.07	11.1
Oil Industry	4.40	4.30	4.5
Others	12.39	12.68	12.3
Real GDP Per Capita (US$)[3]	1,017	1,065	1,031
Population (million)[2]	7.07	7.24	7.41
Unemployment (percent)[6]	7.4	7.9	8.0
Money and Prices:			
Money supply[3 7]	591.3	694.4	701.6
Inflation (12 months)[1 3]	9.3	8.5	10.0
Interest Rates on Dollars:[3 7]			
Loan (average percent)	17.4	15.9	16.1
Deposits (average percent)	10.1	9.1	10.3
CD Time Deposit (average percent)	6.6	7.0	7.5
Exchange Rate (Bs/US$):[3 7]			
Year-end	4.48	4.70	4.86
Average	4.26	4.62	4.72
Trade and Balance of Payments:			
Total Exports[3 7]	709.7	1,065.0	1,012.9
Exports to the U.S.[4 5]	191.0	260.2	[10]250.0
Total Imports[3 7]	1,205.9	1,209.0	1,245.3
Imports from the U.S.[4 5]	215.9	185.8	[10]200.0
Trade Balance	−496.2	−144	−232.4
Trade Balance with U.S.	−24.9	74.4	50.0
Central Bank Net Reserves (year-end)[3]	370.9	509.3	560.3
Aid from U.S.	110	87	121
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[7 8]	3,782.8	3,911.7	4,287.0
Debt Service Payments[7 8]	240.1	282.1	192.3

[1] Estimated data (Central Bank of Bolivia and UDAPE) and/or targets set by the GOP 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 1995.
[6] Based on surveys of urban areas. Data does not consider under-employment.
[7] Central Bank of Bolivia as of September 1995.
[8] Foreign Debt of the Central Bank of Bolivia.
[9] 1995 figures are embassy estimates.
[10] IMF estimates are significantly lower.

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. The administration of President Paz Zamora (1989–93) institutionalized these market-oriented economic reforms.

The Sanchez de Lozada Administration, which took office in August 1993, is implementing further economic reforms, of which the "capitalization" (privatization) program of six large state-owned corporations is the most important. In addition, the Sanchez de Lozada Administration has implemented important reforms in the areas of education, devolution of budgetary authority to municipalities, and the administration of the executive branch. Legislation under consideration would transform the judicial system, political parties and the pension system.

The economic reforms have brought a dramatic drop in inflation (to an annual rate of less than 15 percent each year since 1986), steady economic growth (between 2.5 and 4.2 percent annually starting in 1987) and growing private investment and savings. The government forecasts that the economy will grow by about 3.5 percent

in 1995 and 4.5 percent in 1996, with inflation around 10 percent in 1995 and 8 percent in 1996.

Commercial bank deposits have more than doubled since 1992 to over $2.4 billion. Trade surpluses and large inflows of foreign aid have resulted in growing official foreign exchange reserves. There has been a rapid increase of net reserves in the Central Bank, reaching a record figure of $560 million in September 1995, equivalent to about five months worth of imports.

In compliance with IMF programs, the government reduced the budget deficit of the non-financial public sector (which includes central, regional and municipal governments and the parastatal corporations). The fiscal deficit for 1994 was 3.2 percent of GDP, compared to 6.5 percent in 1993. Estimates for 1995 place the budget deficit close to three percent, but forecasts estimate that it will rise to an estimated 6.5 percent in 1996 due to costs of the reform program and the loss of transfers from formerly state-owned enterprises.

Central government tax revenues were about 11.3 percent of GDP in 1994 compared to 11 percent in 1993. Tax revenues have increased due to better administration and higher tax rates. The government also receives direct transfers from public enterprises and from foreign grants (5.6 percent of GDP). Budget deficits have been covered by foreign loans and the sale of certificates of deposit by the Central Bank. With the budget deficit shrinking, the number of certificates of deposit in circulation decreased to only 13.1 million dollars at the end of 1994 and the interest rate offered on these certificates has declined from 16.2 percent in 1989 to an average of 6.8 percent.

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 (606.9 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, and the investment law allows contracts to be written in dollars. Nearly 90 percent of the 2.4 billion dollars of deposits in Bolivia's 14 commercial banks are denominated in dollars.

Interest rates have remained relatively stable over the last three years. In September 1995, the average interest rate paid on dollar deposits was 10.3 percent and the average rate on dollar loans was 16.1 percent. These rates increased slightly from 9.9 and 15.9 percent respectively in 1994 due to increased bank competition for deposits.

Bolivia became a member of the World Trade Organization (WTO) on September 13, 1995.

2. Exchange Rate Policies

Since 1985, the official exchange rate has been 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. Through September 1995, the average amount of dollars offered each day was five million. This has now increased to ten million. Sealed bids are solicited with dollars going to those bidding at or above the minimum rate. With this mechanism the Central Bank has slowly allowed the Boliviano to depreciate in line with domestic inflation and inflation of Bolivia's major trading partners. The rates set by the BOLSIN cannot ignore market forces because currency exchanges in banks, hotels, exchange houses and on the street corners are legal and active. Parallel market exchange rates generally reflect a difference of less than one percent from the official rates. The exchange rate on January 12, 1996 was 4.96 Bolivanos to 1 USD.

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 three 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 currently sets the prices of finished fuels while the municipal governments try to control the price of a bread roll commonly consumed by the poor. Deregulation of fuel prices is expected to take effect in early 1996.

Between 1990 and early 1993, the Bolivian congress approved three laws that the executive branch had pushed hard in order to promote private investment. A new investment law establishes many guarantees, such as remission of profits, freedom to set prices, and convertibility of currency, that had been previously authorized by Presidential decree. The law essentially guarantees national treatment for foreign investors and authorizes international arbitration except for non-technical disputes

in the oil industry. A hydrocarbons law authorized YPFB, the government-owned petroleum company, to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. Finally, a mining law created a tax on profits and opened up border areas to foreign investors as long as their Bolivian partners hold the mining concession.

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 smelter). The capitalization program was approved by Bolivia's congress in April 1994, and follows congressional approval in 1992 of a privatization law permitting the sale of state-owned companies and assets.

The "capitalization" program permits private sector ownership (up to 50 percent) and management control in return for direct investment in the enterprise. The other 50 percent will be turned over to all adult Bolivians in the form of stock to be placed in individual pension accounts. The government hopes "capitalization" will boost investment, increase output and efficiency, reduce corruption, increase fiscal revenues, and create as many as 500,000 new jobs. The results of the first three "capitalizations" (ENDE for 142 million dollars, ENTEL for 610 million and LAB for 47 million) have exceeded the government's expectations. The hydrocarbons and mining laws passed earlier by Congress are now under revision to comply with the "capitalization" program.

In 1993, Bolivia's 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 under a presidential decree.) A new central bank law passed in October 1995 increased the autonomy of the central bank and established stricter reserve and lending requirements for the banking system. Between 1985 and 1995, all government purchases over 100,000 Bolivianos (about 23,000 dollars) were handled by one of two private purchasing agents. However, government agencies and parastatal companies now have the authority to make their own through a competitive bidding process.

4. Debt Management Policies

The Bolivian government owes $4.3 billion to foreign creditors, 57 percent of which is owed to international financial institutions, mainly the Inter-American Development Bank, the World Bank and the Andean Development Corporation. Of the remainder, 42 percent is owed to foreign governments and less than one percent to private banks and suppliers. 87.8 percent of the foreign debt is owed by the non-financial public sector (with 66.5 percent of total foreign debt owed by the central government and local governments and 19.5 percent by state-owned corporations). Public sector financial institutions hold 12.2 percent of Bolivia's foreign debt.

Bilateral debt payments have been rescheduled five times by the Paris Club, most recently in March 1995 (although this agreement had not been signed as of midNovember). 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 unpaid A.I.D. loans and $31 million in PL–480 loans. (All U.S. assistance to Bolivia has been on a grant basis since 1986.)

The Bolivian Government has reduced its commercial debt from over $700 million in 1985 to $35 million at the end of 1994. 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 hopes 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. 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 prohibited the import of products which affect the preservation of flora and fauna, including nuclear waste. None of these restrictions discriminate against foreign exporters.

There are no limitations on foreign equity participation and dozens of Bolivian companies are wholly owned by U.S. investors. The 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 bor-

ders 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 with YPFB, the state-owned oil company, avoids this restriction.

6. Export Subsidies Policies

The government does not directly subsidize exports. An export law approved by congress in April 1993 replaced a former drawback program with one in which the government grants rebates of all the domestic taxes paid on the production of items later exported. However, delays of more than a year for payment of this rebate are common. 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

Although it is difficult to substantiate the numbers, weak enforcement of existing laws (that themselves offer lax penalties) does little to discourage piracy in Bolivia. The U.S.-based International Intellectual Property Alliance (IIPA) has petitioned the USG to end Bolivia's privileges under the Generalized System of Preferences and the Andean Trade Preference Act. The IIPA, which represents U.S. copyright industries, estimates that U.S. companies lost $14.8 million dollars in 1994 in Bolivia due to piracy of motion pictures, sound recordings, computer programs and books.

In 1995, the Bolivian government established an inter-agency intellectual property rights task force that has undertaken the role of promoting protection of IPR and drafting new legislation that to fulfill Bolivia's commitments under the WTO TRIPs (Trade-related Aspects of Intellectual Property Rights) Agreement and several international conventions. (The TRIPS Agreement gives developing countries, including Bolivia, five years to comply with its provisions.)

The high profile status that IPR protection has gained in the past year appears to have given impetus to new activities to address the problems, including current proposals for stronger regulation of computer software, books, and television and radio channels. The government's inter-agency task force organized an IPR seminar for district attorneys, lawyers and judges, oversaw the destruction of pirated audio cassettes, and is currently working on anti-piracy legislation that would create a new copyright office and enact strict penalties for IPR infringement.

8. Worker Rights

a. *The Right of Association.*—Workers may form and join organizations of their choosing. The labor code requires prior governmental authorization to establish a union, permits only 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. Workers are not penalized for union activities.

In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; approximately one-half of the workers in the formal economy belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible nor impose penalties.

Significant strikes centered around annual negotiations over salaries and benefits for public employees. However, their principal real targets were the economic and social reform programs being pressed by the government. Most strikes were conducted and led by the militant Trotskyite element of the urban teachers union. Other major disturbances occurred in the Chapare region as the coca growers unions opposed government eradication efforts. Strikers and demonstrators marched, set up roadblocks, and used improvised weapons including dynamite bombs against police and property. Normal activity in major cities was frequently paralyzed by rioting unionists until the government imposed a state of emergency in April.

Unions are not free from influence by political parties. Most parties have labor committees that try to influence union activity, causing fierce political battles within unions. Most also admittedly have party activists in the unions. The law allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

b. *The Right to Organize and Bargain Collectively.*—Workers may organize and bargain collectively. 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 lead-

ers 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 IMF 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 in the seven special duty-free trade zones are the same as in the rest of Bolivia.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor. Reported violations were the Criadito system and the agricultural servitude by indigenous workers, and some individual cases of household workers effectively imprisoned by their employers.

d. *Minimum Age for Employment of Children.*—The law prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. The labor code is ambiguous on conditions of employment for minors aged 14 to 17; it permits apprenticeship for those 12 to 14. This practice has been criticized by the International Labor Organization; the government is preparing legislation reforming this and other provisions of the labor code. The Ministry of Labor estimates that the new law will be ready for passage about November 1996. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but the provisions generally are not enforced. Urban children hawk goods, shine shoes, and assist transport operators. Rural children often work with parents from an early age. Children are not generally employed in factories or formal businesses but, when employed, often work the same hours as adults.

e. *Acceptable Conditions of Work.*—The law establishes a minimum wage (about dollars 42 per month), bonuses, and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Although the minimum wage falls below prevailing wages in most jobs, certain fringe benefits are pegged to it. The minimum wage does not cover about 20 percent of urban workers—vendors and shoe polishers, for example—nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5½ days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced.

Work conditions in the mining sector are particularly bad. Although the State Mining Corporation has an office charged with safety, many mines, often old and using antiquated equipment, are dangerous and unhealthy. In some cooperative mines, miners earn less than dollars 3 per 12-hour day. They work without helmets, boots, or respirators in mines where toxic gases abound; they buy their own supplies, including dynamite, have no scheduled rest periods, and must survive underground from 24 to 72 hours continuously with little water and food.

f. *Rights in Sectors With U.S. Investment.*—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—1994

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Wholesale Trade	(1)
Banking	(1)
Finance/Insurance/Real Estate	0
Services	0
Other Industries	(1)
TOTAL ALL INDUSTRIES	269

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

BRAZIL

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	341,324	360,956	382,000
Real GDP Growth (pct)[3]	4.2	5.8	4.9
GDP (at current prices)[2]	482,267	528,280	560,000
GDP by Sector (percent):			
Agriculture	12.5	14.3	N/A
Industry	38.2	37.3	N/A
Mining	1.8	1.2	N/A
Manufacturing	24.9	22.9	N/A
Construction	7.4	7.7	N/A
Public Services	4.2	5.5	N/A
Services	59.4	57.3	N/A
Commerce	7.6	7.1	N/A
Transport	4.4	4.3	N/A
Communications	1.7	1.4	N/A
Financial Services	9.8	9.1	N/A
Government	11.0	10.4	N/A
Rents	6.9	6.7	N/A
Other Services	18.1	18.3	N/A
Subtotal	110.1	108.8	N/A
Less: Financial Intermediation	10.1	8.8	N/A
Real Per Capita GDP (dollars, 1985 prices)	2,252	2,348	2,400
Labor Force (000s)	65,600	66,900	68,200
Unemployment Rate (percent)	5.3	5.1	5.0
Money and Prices (annual percentage growth):			
Money Supply (MΣ)	2,078.0	20.8	47.0
Base Interest Rate[4]	3,059.8	1,154.0	44.0
Personal Savings Rate	2,663.5	996.2	38.0
Retail Inflation	2,491.0	1,173.0	23.0
Wholesale Inflation	2,639.3	1,029.4	5.7
Consumer Price Index	2,491.0	1,173.0	23.0
Exchange Rate (annual average—93: CR/USD; 94 & 95: R/USD)			
Commercial	90.2	0.6	0.9
Parallel	90.4	0.6	0.9
Balance of Payments and Trade:			
Total Exports FOB[5]	38,597	43,545	45,000

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exports to U.S.	7,843	8,816	9,000
Total Imports FOB[5]	25,480	33,168	48,500
Imports from U.S.	5,653	7,560	11,000
Aid from U.S.[6]	25.0	14.6	19.9
Aid from Other Countries	N/A	N/A	N/A
External Public Debt[7]	90,614	87,330	94,000
Debt Service Payments (paid)	8,453	6,397	10,000
Gold and Foreign Exchange:			
Reserves (intl liquidity)	32,211	38,806	49,000
Trade Balance[5]	13,117	10,377	−3,500
Balance with U.S.[5]	2,190	1,257	−2,000

[1] 1995 figures estimated based on Jan.-Sept. data.
[2] Market prices.
[3] Percentage changes calculated in local currency.
[4] Actual accumulated nominal rates, not changes in them.
[5] Merchandise trade.
[6] USAID only.
[7] Nonfinancial public sector (excludes Petrobras and CVRD).

1. General Policy Framework

Brazil is in the midst of an ambitious economic restructuring program designed to bring inflation down, dismantle state control of the economy, reduce market barriers, and encourage greater private sector (including foreign) investment in order to achieve sustainable long-term non-inflationary growth. Since the introduction of a new currency, the Real, in July 1994, Brazil has brought inflation down from a monthly rate of 50 percent in June 1994 to an average monthly rate of under 2 percent. The keys to this achievement have been a strongly valued currency and high real interest rates to attract foreign capital. However, long-term economic stabilization will require more privatization and fiscal reforms to achieve balanced budgets at the federal, state and municipal levels of government.

The federal government has achieved a balanced budget by limiting budget disbursements to cash-on-hand. Constitutionally mandated earmarks and transfers, a large public payroll and large debt service obligations (particularly on its internal debt, an estimated $97 billion, with an annual real rate of interest of 42.5 percent), leave the government less than 10 percent of revenues for discretionary spending. As a result, investment in and maintenance of infrastructure projects has virtually ceased.

The states and municipalities are running budget deficits (2.4 percent of GDP in the first semester of 1995), primarily because more than 80 percent of revenues go to the public payroll; the states have increasingly resorted to borrowing to pay their public employees, thus incurring the additional cost of the high domestic interest rates. Brazil's state-owned enterprises also run a deficit (0.6 percent of GDP in the first semester of 1995), due to payroll costs and the freezing of public tariffs since July 1994. To bring more order to public accounts, the government has proposed constitutional reforms of the bureaucracy and social security, in addition to tax reforms. These have proved to be very controversial within the Congress and progress has been slow.

The stabilization plan was premised on three anchors—exchange rate (strong currency), tight monetary policy, and fiscal restraint. With fiscal reforms lagging, the exchange and monetary anchors have had to bear more of the burden. Repressed consumer demand freed from the inflation tax caused a consumption boom during the last quarter of 1994 and the first quarter of 1995 (when growth reached 10.5 percent). Reduced market barriers and a strongly valued currency prompted an import surge (up 90 percent from 1994 levels while exports increased 6 percent). To dampen consumption and stave off a larger than expected current account deficit, the government tightened monetary policy by imposing high bank reserve requirements and credit restrictions. High domestic real interest rates also inhibit business investment, particularly by small and medium-sized businesses that cannot borrow overseas.

In response to the import surge and resulting large monthly trade deficits in late 1994 and early 1995, in March 1995 the government significantly raised import tariffs on a range of consumer durable goods, including automobiles, and on shoes. Ini-

tially, some of the higher tariffs violated Brazil's tariff bindings under the World Trade Organization (WTO). After the U.S. government expressed concerns, Brazil brought all tariffs within its tariff binding levels. The new tariff levels, as high as 70 percent on some products, will be in effect until April 1996. The tariff increases did not affect capital goods, which constitute a significant portion of U.S. exports to Brazil. In June 1995 the government imposed quotas on the importation of automobiles, and announced a new program of investment incentives for domestic auto production. The quota regime was eliminated in October after the WTO Balance of Payments Committee rejected Brazil's justification of the quotas on balance of payments grounds. Brazil continues to explore implementing a program of investment incentives for automobiles and auto parts that matches a regime established by Argentina. The U.S. will monitor the structure to ensure compliance with Brazil's WTO obligations.

The process of trade liberalization initiated in 1990 has produced significant changes in Brazil's trade regime, resulting in a more open and competitive economy. Imports have increased as a result of generally lower tariffs and reduced non-tariff barriers, as well as the strength of the Real relative to the dollar, and are composed of a wide range of industrial, agricultural and consumer goods. Despite the restrictive measures adopted during 1995 to slow mounting trade deficits, measures which the Brazilian government asserts are temporary, access to Brazilian markets in most sectors is generally good, and most markets are characterized by competition and participation by foreign firms through imports, local production and joint ventures.

Brazil and its Southern Common Market (MERCOSUR) partners, Argentina, Paraguay and Uruguay, implemented the Mercosur Common External Tariff (CET) on January 1, 1995. The CET currently covers approximately 85 percent of 9,000 tariff items; most of the remaining 15 percent will be covered by the CET by 2001, and all will be covered by 2006. The CET levels range between zero and 20 percent. With the exception of tariffs on computers, footwear, consumer goods, some capital goods, and products included on Brazil's national list of exceptions to the CET (such as shoes, automobiles and consumer electronics) the maximum Brazilian tariff is now 20 percent; the most commonly applied tariff is 14 percent.

The Brazilian Congress ratified the GATT Uruguay Round trade agreements in December 1994, and Brazil became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

Brazil has three exchange rates: commercial, tourist (or floating), and parallel. The commercial rate is used for commercial and financial transactions registered with the Central Bank. The tourist rate is used for individual transactions, such as travel, education, and other unilateral transfers. The parallel rate is similar to the tourist rate, but is not recorded with the Central Bank. The spread between the three rates has narrowed with stabilization. Central Bank officials state the intention eventually to unify the commercial and tourist rates.

When introduced in July 1994, the new currency, the Real, was pegged at parity with the U.S. dollar. The inflow of foreign capital attracted by Brazil's high real interest rates caused the value of the Real to appreciate to 0.81 for one U.S. dollar by October 1994. The Central Bank began intervening in the markets to stem the appreciation in late 1994. In response to growing concern about trade deficits and steady outflows of foreign capital in the aftermath of the Mexican financial crisis, the Central Bank established a new system of trading bands in March 1995. The Central Bank has subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. In October 1995 the trading band was 0.91—0.99 Real for one dollar, with the miniband between 0.961 and 0.966. On January 12, 1996, the Real/Dollar exchange rate was 0.973.

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. In addition, as part of its efforts to keep inflation down, the government has in the past regularly frozen public utility rates. In 1995, the government stated its intention to phase in "full cost recovery" pricing for utility rates over the next two years.

Brazil's privatization program, initiated in 1990 to reduce the size of the government and improve government fiscal balances, has shifted to a new phase. The steel companies and most of the petrochemical companies owned by the government have been privatized; the large mining conglomerate, Companhia Vale do Rio Doce, is

scheduled for privatization in 1996. The government now plans to privatize public utilities, beginning with electric utilities and eventually encompassing telecommunication services. Progress with the utility privatizations has been slowed by the lack of adequate regulatory regimes. Rules defining clearly the new tariff structures will be particularly important to attract foreign investors.

Brazil's tax system is extremely complex, with a wide range of income, consumption, and payroll taxes levied at the federal, state and municipal levels. Both payment and collection is burdensome. Progress has been made to improve collections; currently revenues collected constitute approximately 30 percent of GDP. The government has submitted to Congress constitutional and legislative revisions of the tax regime intended to reduce complexity and simplify collection. However, Congress has given the proposals a lukewarm reception.

4. Debt Management Policies

Brazil's total external debt by the end of 1994 was approximately $149 billion, of which 58.9 percent was owed by the public sector and 41.1 percent by the private sector. Debt service represented 1.2 percent of Brazil's gross domestic product and 14.7 percent of export earnings. Brazil concluded a commercial debt rescheduling agreement (without an IMF stand-by program) in April 1994 after twelve years of negotiations. Brazil has fully complied with the commitments made in this agreement. We do not foresee any need for Brazil to reschedule its external debts in the near future.

The Government of Brazil raised close to $2 billion in 1995 through bond issues in Germany and Japan. The U.S. Embassy expects further overseas bond issues in 1996, since the government received Senate approval in November 1995 to borrow an additional $5 billion overseas. The funds received will be used to reduce the government's growing internal debt, which now surpasses its external debt.

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 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 over two years. The Secretariat of Foreign Trade's computerized trade documentation system (SISCOMEX), scheduled to be fully operational in December 1995, should streamline the filing and processing of import documentation.

Agricultural Barriers: Barriers to U.S. agricultural products are mainly sanitary and phytosanitary measures. Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil prohibits the importation of beef treated with anabolics; however, beef imports from the United States have been allowed on a waiver basis since 1991. In October 1995, Brazil prohibited the importation of live sheep from the United States due to scrapie disease.

Brazil will officially adopt the harmonized phytosanitary standards of the Southern Cone Phytosanitary Committee (COSAVE), composed of Argentina, Chile, Brazil, Paraguay and Uruguay, as of January 1, 1996. In November 1995, the U.S. Department of Agriculture and the Brazilian government reached an interim bilateral agreement to enable most U.S. fruit, grain and seed exports to meet the new phytosanitary requirements; a final agreement is pending further technical discussions, particularly on standards for wheat and apples. U.S. exporters encountered difficulties during 1995 as Brazil implemented a number of the new COSAVE standards with little advance notification.

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 in government procurement contracts from providing technical services unless Brazilian firms are unable to perform them. Restrictions exist on the use of foreign-produced advertising materials.

Many service trade possibilities, in particular services in the telecommunications, oilfield, and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations, except on a case-by-case basis, including investment in a privatized bank. The Brazilian Congress approved five Constitutional amendments in 1995: eliminating the Constitutional distinction between national and foreign capital; opening the state telecommunications, petroleum and natural gas distribution monopolies to private, including foreign participation; and

permitting foreign participation in coastal and inland shipping. These amendments should ease many of the current restrictions on foreign services providers. However, the degree to which these sectors are actually opened will depend on implementing legislation, which has not yet been introduced.

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. The lucrative reinsurance market is reserved for the Reinsurance Institute of Brazil (IRB), a state monopoly.

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, shipping, and other "strategic industries." In other sectors Brazil limits foreign equity participation, imposes local-content requirements and links incentives to export performance. Many of these restrictions should be reduced once the Constitutional amendments passed in 1995 are implemented. Foreign ownership of land in rural areas and adjacent to international borders is prohibited.

Information Technology (informatics): The 1991 "Informatics Law" eliminated prohibitions and requirements for government prior review for information technology imports, investment, or manufacturing by foreign firms in Brazil. However, import duties remain high (up to 35 percent) on information technology 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.

The "Software Law" of 1987 (Law 7646) requires that all software be "catalogued" by the Informatics Secretariat of the Ministry of Science and Technology prior to its commercialization in Brazil, and that software be distributed through a Brazilian firm in many cases. The law contains a provision 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 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. The federal, state and municipal governments, as well as related agencies and companies, follow a "buy Brazilian" policy. For example, discriminatory government procurement practices in the computer, computer software and digital electronics sectors may have significant adverse market access implications for U.S. firms, particularly firms not established in Brazil. Brazil permits foreign companies to compete in any procurement-related multilateral development bank loans and opens selected procurements to international tenders. To the extent that the privatization program continues, and non-discriminatory policies are adopted, U.S. firms should have greater opportunities in Brazil. Implementation of the Constitutional amendments discussed above may also ease some of the barriers currently faced by foreign suppliers.

Law Number 8666 of 1993, covering most government procurement (except informatics and telecommunications), requires non-discriminatory treatment for all bidders, regardless of nationality or origin of product/service. However, regulations introduced in late 1993 allow consideration of non-price factors and give preferences to telecommunications, computer, and digital electronics goods produced in Brazil. 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. Bidders that meet one or more of the criteria for preferential treatment—Brazilian owned company, Brazilian technology or products, minimum local value-added content—are allowed a price differential of up to 12 percent over other bidders.

Brazil is not a signatory to the Uruguay Round plurilateral Government Procurement Agreement.

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 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. Exporters are also eligible for a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. PROEX was originally intended to eliminate the distortions in foreign currency-linked lending caused by Brazil's then 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.

Revisions to PROEX are currently under consideration and expected to be announced by the end of 1995. The revisions are expected to expand the size of the program, as well as authorize coverage of additional export sectors. Since most Brazilian exporters borrow abroad against future receipts at international rates much lower than prevailing Brazilian rates, this proposed interest rate break is not expected to be of great significance.

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 biotechnology inventions; trademarks and trade secrets; and copyrights. The Brazilian government has made a commitment to bring its intellectual property regime up to the international standards required by the WTO Trade-related Aspects of Intellectual Property Rights (TRIPs) Agreement. The Industrial Property Bill passed by the Chamber of Deputies in 1993 and currently pending before the Senate would address many of the deficiencies in the current law on patents, trademarks and trade secrets. Legislation designed to improve protection of copyrights, lay-out designs of integrated circuits and plant varieties is also being drafted by the Executive branch for submission to Congress. In April 1995, the U. S. government placed Brazil on the Special 301 Priority Watch List."

In addition to the WTO, Brazil is also 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 biotechnology inventions. The Industrial Property Bill 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 supports 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 pending Industrial Property Bill 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, enforcement of the law 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 govern-

ment has also initiated action to reduce the importation of pirated sound recordings and videocassettes.

The 25-year term of protection for computer software falls considerably short of the Berne Convention standard of the life of the author plus 50 years. A bill designed to improve protection for computer software programs was submitted to Congress in early 1995. The bill would extend the term of protection to 50 years, protect software programs "as literary works," and recognize exclusive rental rights.

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: The U.S. pharmaceutical industry estimates cumulative losses of approximately $600 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 about $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. Elements of Brazil's labor movement and the International Confederation of Free Trade Unions criticize "unicidade" and the union tax.

"Unicidade" has proven less restrictive in practice 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 well over half of this number affiliated with an independent labor central. Intimidation of rural labor organizers by landowners and their agents continues to be a problem.

The Constitution provides for the right to strike (excepting, again, military, police and firemen, but including other civil servants). Enabling legislation passed in 1989 stipulates that essential services must remain in operation during a strike and that workers must notify employers at least 48 hours before beginning a walkout. The Constitution prohibits government interference in labor unions but provides that "abuse" of the right to strike (such as not maintaining essential services, or failure to end a strike after a labor court decision) is punishable by law.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right to organize. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. The scope of issues legally susceptible to collective bargaining is narrow and the labor court system exercises normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation.

The Cardoso administration has made expansion of collective bargaining one of its major objectives in the labor sector. On June 30, 1995, the government instituted a provisional measure which ended the indexing of wages to inflation, reduced the role of labor courts in wage negotiations, allowed for mediation if the parties involved requested it, and provided greater latitude for collective bargaining. Unions have welcomed this reduction in the power of labor courts in setting wages, since previously labor courts and the Labor Ministry had mediation responsibility in the preliminary stages of dispute settlement. In many cases, wages are set through free negotiations; labor court decisions set them in others.

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, the authorities do not effectively enforce laws protecting union members from discrimination.

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 were credible reports of forced labor in many parts of Brazil. Forced labor is common on farms producing charcoal for use in the iron foundries and steel industries, and in the sugar industry. Local police admit that overseers or owners of many farms withhold pay from migrant laborers and use force to retain and intimidate them, but the jurisdiction for such violations falls to the Ministry of Labor, which has only 2,300 inspectors for all of Brazil. Labor organizations allege that in mining and the rural economy, thousands of workers, including minors, are subjected to debt bondage, with violence used to retain or punish workers who attempt to escape. The federal government has taken a number of steps to clamp down on forced labor, but admits that existing enforcement resources are inadequate.

d. *Minimum Age for Employment of Children.*—The minimum working age under the Constitution is 14 years, except for apprentices; however, judges can authorize employment for children under 14 years of age when they deem it appropriate. The law requires permission of the parents or guardians for minors to work, and they must attend school through the primary grades. The law prohibits minors from night work, work that constitutes a physical strain, and employment in unhealthful, dangerous, or morally harmful conditions. Legal restrictions intended to protect working minors under age 18 are rarely enforced, however. Official figures state that nearly 3 million 10- to 14-year-old children (or 4.6 percent of the work force) are employed. Many children work alongside their parents in cane fields, cutting hemp, or feeding wood into charcoal ovens; frequent accidents, unhealthy working conditions, and squalor are common in these cases.

e. *Acceptable Conditions of Work.*—Unsafe working conditions are prevalent throughout Brazil. The Ministry of Labor sets occupational health and safety standards, but has insufficient resources for adequate inspection and enforcement of these standards. A worker, or his union, can file a claim with the regional labor court if a workplace safety or health problem cannot be resolved directly with the employer, although in practice this is frequently a cumbersome, protracted process. The law requires employers to establish internal committees for accident prevention in workplaces, and protects employee members of these commissions from being fired from their committee activities. Such firings, however, do occur, and legal recourse usually requires years for resolution.

f. *Rights in Sectors With U.S. Investment.*—U.S. investment is concentrated heavily in the automotive, 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		768
Total Manufacturing		13,681
Food & Kindred Products	1,794	
Chemicals and Allied Products	2,268	
Metals, Primary & Fabricated	732	
Machinery, except Electrical	1,904	
Electric & Electronic Equipment	935	
Transportation Equipment	2,271	
Other Manufacturing	3,777	
Wholesale Trade		402
Banking		1,399
Finance/Insurance/Real Estate		2,258
Services		129
Other Industries		340
TOTAL ALL INDUSTRIES		18,977

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

CHILE

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1994 exch. rate)	50,000	52,163	56,000
GDP (current prices)	45,700	52,163	65,000
Real GDP Growth (peso terms)	6.3	4.2	7.5
Real GDP by Sector:			
Agriculture	3,700	4,000	4,200
Utilities	1,500	1,550	1,650
Manufacturing	9,400	9,700	10,200
Construction	3,000	3,100	3,250
Fishing	550	670	750
Mining	4,400	4,500	4,900
Trade	9,200	9,500	10,400
Transport/Communications	4,000	4,400	4,900
Other (includes services)	14,250	14,700	15,800
Real Per Capita GDP (US$)	3,200	3,700	4,600
Labor Force (000s)	5,095	5,213	5,250
Avg. Unemployment Rate (percent)	4.6	5.9	5.6
Money and Prices (annual percent growth):			
Money Supply (M1A)	22.2	22.5	25.0
Real Interest Rate[2]	9.2	9.3	8.4
Wholesale Inflation (12-month)	6.7	7.8	7.5
Consumer Price Inflation (12-mo.)	12.2	8.9	8.2
Average Exchange Rate (Pesos/US$):			
Interbank Rate (actual)	404	420	397
Mid-Point of Crawling Peg	430	455	415
Balance of Payments and Trade:			
Total Exports FOB	9,202	11,540	15,900
Exports to U.S. FOB	1,655	2,012	2,350
Total Imports FOB	10,181	10,879	14,300
Imports from U.S. CIF	2,477	2,638	3,700
Aid from United States[3]	4	4	0
Public Foreign Debt[4]	9,020	9,135	7,100
Public Foreign Debt Service[4]	1,300	1,200	2,500
Gold and Foreign Exchange Reserves	9,759	13,467	14,000
Trade Balance	−979	660	1,600
Trade Balance with U.S.	−822	−626	−1,350

[1] 1995 estimates are based on data through June.
[2] Real (i.e., in addition to inflation) annualized rate for 90–365 day loans.
[3] Fiscal years. All grants.
[4] Includes Central Bank and public corporation debts. 1995 figure includes prepayment of government and Central Bank debts.

1. General Policy Framework

Chile's economy has grown rapidly for more than a decade, fueled by steadily rising domestic savings and domestic and foreign investment. Exports have increased rapidly. While copper remains the country's most important product, accounting for about 40 percent of export earnings, exports of fish, forestry products, fresh fruit, and manufactured products are also important. Chile's credit rating is the highest in Latin America, and Chilean firms finance investment by borrowing, issuing bonds, and selling stock abroad as well as in Chile. Many Chilean firms are also expanding abroad.

The 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 1988–1995, and it is projected to do so in 1996. 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. As of late 1995, several pending legislative proposals would allow banks to do business abroad, would privatize Chile's water and sewage companies, and would modernize the customs system.

The Central Bank's monetary policy uses changes in real interest rates to affect domestic spending, aiming gradually to reduce inflation while keeping the economy on a path of steady growth. It has sought to prevent rapid exchange rate changes by buying or selling dollars to keep the exchange rate within a pre-announced range.

Preliminary indications suggest that growth for 1995 will be around 7.5 percent and inflation will be near the Central Bank's target of eight percent. Unemployment will average between five and six percent. Because of unusually high copper prices, the trade surplus will surpass $1.5 billion, and the current account will be more or less in balance. Net foreign investment is expected to surpass $3 billion in both 1995 and 1996.

Chile became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

The Central Bank allows the peso-dollar exchange rate to fluctuate within 10 percent either way of a central value. The central value is a "crawling peg" that is designed to keep the real exchange rate appreciating by an average of 2 percent annually; it moves each day according to changes in the exchange rates of the dollar, mark, and yen and the difference between Chilean and foreign inflation. On January 12, 1996, the official exchange rate was Pesos 436.32 to 1 USD.

The Central Bank buys or sells dollars in the official inter-bank market to affect the exchange rate when the peso threatens to move more than ten percent above or below the crawling peg. The Central Bank does this only to reduce what it believes are short-term fluctuations. It does not attempt to block long-term trends in the exchange rate, and it has shifted the crawling peg twice since 1992 and once recently to reflect long-term strengthening of the peso.

Over the last several years, the Central Bank has gradually reduced controls on foreign exchange transactions. In 1995, it lifted the requirement that exporters remit some of their foreign currency earnings through the inter-bank market. A legal parallel market operates with rates almost identical to the inter-bank rate. Over the last decade, the peso has appreciated in real terms against the dollar (that is, after taking into account inflation) because of Chile's trade surpluses, inflows of foreign capital, and the dollar's weakness on 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 5.)

Tax Policies: An 18 percent value-added tax (VAT) applies to all sales transactions and accounts for over 40 percent of total tax revenue. There is an 11 percent tariff on 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 taxes are levied only on income over about $6,000 per year. The top marginal rate is 45 percent on annual income over about $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory Policies: Regulation of the Chilean economy is limited. The most heavily regulated areas are utilities, the banking sector, the securities markets, capital 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, can displace U.S. exports).

4. Debt Management Policies

Chile's vigorous economic growth and careful debt management over the last decade have meant that the foreign debt is much more manageable. As of late 1995, Chile's public and private foreign debt was about $20 billion, or around 35 percent of GDP. (In 1985, the debt-to-GDP ratio was 125 percent.) Since the mid-1980s, public sector debt has declined steadily. In 1995, the government and the Central Bank

prepaid over $1.5 billion in debt to the International Monetary Fund and the World Bank, reducing public sector foreign debt to about $7 billion. As the public sector foreign debt has fallen, private sector debt has risen as firms have borrowed abroad to finance investment.

5. Significant Barriers to U.S. Exports

Chile has few barriers to U.S. exports, one major exception being sanitary and phytosanitary barriers to U.S. meat and produce.

Tariffs: In the Uruguay Round, Chile bound its tariffs at 25 percent, except for some price band agricultural items bound at a maximum of 35 percent. In all cases, applied tariff rates are below the bindings. The current uniform applied tariff rate is 11 percent on all imports except used goods (16.5 percent) and price band agricultural items (maximum 29 percent). Imports of used automobiles are prohibited.

Chile has free trade agreements providing for duty-free trade in most products by the late 1990s with Mexico, Venezuela, Colombia, and Ecuador. As of late 1995, Chile was negotiating a trade-liberalizing agreement with the Mercosur nations (Argentina, Brazil, Paraguay, and Uruguay) and was negotiating a similar agreement with Peru. Tariffs also are lower than 11 percent for certain products from member countries of the Latin American Integration Association (ALADI) and products imported by diplomats and the Chilean military.

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.

Taxes: The 18 percent VAT is applied to the CIF value of imported products plus the 11 percent import duty. Duties may be deferred for a period of seven years for capital goods imports purchased as inputs for products to be exported. (See section six.) Automobiles are subject to additional taxes based on value and engine size. The engine displacement tax, which is scheduled to be phased out by 1999, applies to vehicles with engines of over 1,500 cc.; the value tax is 85 percent of the CIF value over a certain level (around $10,000 in 1995). These taxes discourage sales of larger and more expensive vehicles, including most U.S.-made automobiles. Despite these taxes, sales of U.S.-made vehicles are rising.

The automobile and light truck industry is also 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.

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. The government has introduced into the legislature a proposal that would change the liquor tax system, although whiskey would still face higher tax rates than domestically produced liquors with a lower alcohol content.

Other Nontariff Barriers: The main trade remedies available to the Chilean government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands. Chile's most significant nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshhold, surtaxes are levied on top of the across-the-board 11 percent tariff in order to bring import prices up to an average of international prices over previous years.

The Chilean government may apply country-specific duties on products that it determines to have received subsidies from exporting countries and on products that it determines to have been dumped at below-market prices. However, some industry sources have claimed that surtaxes have occasionally been applied to agricultural imports without reasonable evidence of subsidies or dumping. As of late 1995, the only products subject to these duties were Argentine wheat flour and Chinese-made shoes. Low world prices have led Chile to establish minimum customs values for several agricultural products in the past, but as of late 1995, only wheat flour is subject to a minimum customs value.

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 inter-bank exchange rate, and to choose between ei-

ther national tax treatment or a guaranteed rate for the first ten years of an investment. Approval by the Foreign Investment Committee is routine. Investors must deposit 30 percent of the capital obtained from foreign loans in a non-interest bearing central bank account (known as the "encaje") for one year. In 1995, the Central Bank applied the encaje to inflows of foreign capital into stocks, bonds, bank deposits, and real estate as well. There is no tax treaty between Chile and the United States, so profits of U.S. companies operating in Chile are taxed by both governments. However, U.S. firms generally can claim credits on their U.S. taxes for taxes paid in Chile.

Firms may invest without using 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. On the other hand, D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in an emergency in order to prevent distortion of local financial markets. The Central Bank has never exercised this power.

In recent years, the government has for the first time begun to allow private firms to invest in and operate public infrastructure projects, such as toll roads. Most Chilean ports are administered by a state-owned firm, although stevedoring services are typically provided by the private sector.

Restrictions on foreign investment in some other sectors exist. Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean. Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment. 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.

A freeze in force since the early 1980s on the issuance of new bank licenses means that would-be bankers (domestic as well as foreign) must acquire existing banks. This freeze may be reconsidered if a banking reform law introduced in late 1995 becomes law.

Animal Health and Phytosanitary Requirements: Chile occasionally uses animal health and phytosanitary requirements in a non-transparent 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 on poultry imports. The standard is so high—zero tolerance of salmonella—that imports cannot gain entry to the Chilean market. In addition, Chilean phytosanitary requirements have effectively kept out most U.S. fruits and vegetables for many years. 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 Chilean" 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. It does, however, offer a few nonmarket incentives to exporters. For example, paperwork requirements are simplified for nontraditional exporters. The government also provides exporters with quicker returns of VAT paid on inputs than other producers receive.

The most widely used indirect subsidy for exports is the simplified duty drawback system for nontraditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on imported inputs to production (as is the case in Chile's standard drawback program). This amount—three percent of value for goods with yearly Chilean exports below about $18 million, five percent for goods with yearly exports below $15 million, and 10 percent for goods with yearly exports below $10 million—is often

more than the amount of import duties paid. The total annual amount of simplified drawback has been around $90 million in recent years. Not all of this is a subsidy, because some of it replaces standard drawback that the exporters would have received.

All Chilean exporters may also defer tariff payments on capital imports for a period of seven years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

Chile's forestry subsidy indirectly promotes exports, because most of Chile's forestry products are exported. The government subsidizes about 75 percent of planting costs and certain management costs for the first generation of trees in a plantation. The value of the subsidy is adjusted for inflation and treated as taxable income when the trees are harvested several years later. Forestry industry representatives say the subsidy, when allocated over the life of plantations, amounts to an interest-free loan for about five percent of total costs. Both foreign and Chilean-owned enterprises are eligible for the subsidy. The law which established the subsidy in 1974 (D.L. 701) expires in March 1996, and discussions are ongoing about its possible renewal or revision.

7. Protection of U.S. Intellectual Property

Continuing deficiencies in patent protection have kept Chile on the U.S. Special 301 watch list since 1989. Chile does not have an explicit statute for protecting the design of semiconductors nor does it have comprehensive trade secret protection. Contracts may set fees and royalties only as a percentage of sales, and payments for the use of trade secrets and proprietary processes are usually limited to three percent. Efforts to enforce intellectual property rights in Chilean courts have been successful. Chile belongs to the World Intellectual Property Organization (WIPO) and, as a WTO member, is subject to the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs).

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. (TRIPs requires Chile to adopt a 20-year standard, from date of application, by 2003.) 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 does not prevent local companies from pirating foreign pharmaceutical patents of products introduced into the market. Payments for the use of patents may not exceed five percent of sales. 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.

Copyrights: Copyright protection is 50 years. U.S. recording industry officials have said that Chile's copyright law grants producers less favorable treatment vis-a-vis authors than is the international norm. Piracy of video and audio tapes has been subject to criminal penalties since 1985, though industry sources say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. Nevertheless, 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. 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. In the mid-1980s, the software piracy rate was believed to be around 90 percent; it is currently estimated at around 65 percent. Greater access to authorized dealers and service has also helped to reduce the rate of piracy.

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 on U.S. trade: Although it is difficult to estimate damages accurately, 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 part of this amount would go to U.S. companies 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 12 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.

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.

Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike. Employers are required to show cause whenever they fire workers, but "needs of the enterprise" is a permissible cause. Observers believe that some employers invoke this cause to fire employees for attempting to form unions.

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. Some children are employed in the informal economy, which is more difficult to regulate. A UNICEF study estimated that in the early 1990s, about 100,000 minors (seven percent of their age group) held jobs. Most of these children worked in the countryside, and many of them worked with their parents.

e. *Acceptable Conditions of Work.*—Winimum 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 $145 per month, is set by government, management, and union representatives, or by the government if the three groups cannot reach agreement. Lower-paid workers also receive a family subsidy. The minimum wage and wages as a whole have risen steadily over the last several years. As a result, poverty rates have declined dramatically in recent years, from 45 percent of the population in 1987 to 28 percent in 1994.

f. *Rights in Sectors With U.S. Investment.*—Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no special districts where different labor laws apply.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		376
Food & Kindred Products	56	
Chemicals and Allied Products	154	
Metals, Primary & Fabricated	−157	
Machinery, except Electrical	2	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	190	
Wholesale Trade		262
Banking		364
Finance/Insurance/Real Estate		1,590

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Services	(1)
Other Industries	1,570
TOTAL ALL INDUSTRIES	4,457

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	48,804	51,602	54,698
Real GDP Growth (pct.)	5.3	5.7	5.3
GDP (at Current Prices)	53,974	66,419	75,900
GDP by Sector:			
Agriculture	7,475	9,016	10,069
Energy and Water	1,702	2,186	2,457
Manufacturing	9,976	11,685	13,080
Construction	3,130	4,007	4,442
Rents	2,493	3,220	3,584
Financial Services	3,682	4,862	5,586
Other Sectors	25,516	31,443	36,682
Real Per Capita GDP ('85 BPS)	1,437	1,494	1,558
Labor Force (000s)[3]	14,373	14,394	14,500
Unemployment Rate (pct.)	7.1	7.2	9.0
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	31.7	28.4	16.0
Base Interest Rate[5]	25.5	29.8	32.2
Personal Savings Rate[5]	7.0	6.5	6.2
Retail Inflation	22.6	22.5	19.6
Wholesale Inflation	14.2	17.1	17.5
Consumer Price Index[6]	324.8	398.2	475.2
Exchange Rate (USD/Peso):			
Official[7]	803.5	826.5	924.4
Parallel Rate	790.0	815.0	915.0
Balance of Payments and Trade:			
Total Exports (FOB)	7,114	8,362	10,550
Exports to U.S.	2,835	3,043	3,566
Total Imports (CIF)	9,839	11,895	13,188
Imports from U.S.	3,500	4,554	4,866
Aid from U.S.[8]	16	1	0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	13,811	14,224	13,968
Debt Service Payments[9]	3,147	3,381	2,646
Gold and Foreign Exchange Reserves[10]	7,767	8,300	8,325
Trade Balance	−2,725	−3,533	−2,638
Balance with U.S.	−665	−1,511	−1,300

[1] Figures for 1993 and 1994 are preliminary figures from Colombia's official statistics bureau (DANE); figures for 1995 are projections/estimates from the National Planning Department.
[2] 1985 exchange rate: USD=142.31 pesos.

[3] Figures from 1993 and 1994 are from National Household Survey; 1995 figures are estimated.
[4] Annual percentage growth.
[5] Annual Average Rate; 1995 rate estimated on basis of first nine months.
[6] Base December 1988=100.
[7] Colombia has no meaningful official rate. "Official rate" shown is annual average interbank market rate. Parallel rate is estimated.
[8] Aid reflects USAID program aid only.
[9] Public debt only. 1995 figures are Central Bank estimates.
[10] Through September 1995.

1. General Policy Framework

Colombia is a free market economy with major commercial and investment links to the United States. Transition from a highly regulated economic regime to an unrestricted access market has been underway since 1990. The U.S. is Colombia's largest single trading partner, and the U.S. accounts for over 60 percent of Colombia's foreign direct investment within the non-petroleum sector. Sound management and a stable economic base have resulted in consistent, steady growth over the past twenty-five years. The domestic economy does suffer, however, from the impact of violence generated by guerrillas and drug traffickers, and from the not easily quantifiable effects of contraband and a vigorous informal economy.

Colombia's "apertura" (economic liberalization) program, initiated during the Administration of Cesar Gaviria (1990–94), has been continued by the Administration of Ernesto Samper, with some modifications. That program opened the Colombian economy to international trade and capital inflows by reforming foreign exchange and tax legislation, labor regulations, and the foreign investment regime; by slashing tariff rates and eliminating non-tariff barriers; and by actively negotiating free trade agreements. Apertura also led to great progress in the privatization of state enterprises, ports, railroads, and banks. Senior government officials have acknowledged that apertura is so firmly entrenched that backing away from it would be impossible.

The Samper Administration has not stepped back from apertura, but it has attempted to reduce some of the economic dislocation caused by the rapid economic changes. Its approach is called "apertura with a heart." A "safety net" has been implemented, with programs involving care for infants, the elderly, and women. The government has also devoted increased attention to education, health care, and job creation, and is beginning to provide some subsidized housing. The programs are especially targetted at rural areas, where the most intractable poverty is to be found.

Agriculture, which has been particularly hard hit by apertura policies, benefits, inter alia, from agreements that require domestic processors to purchase the total production of certain crops at higher than market prices. To gain their participation in these agreements, the government grants processors a reduction in actual import duties paid on certain imported commodities when the processors can show domestic crops were purchased at the support prices established in the agreements.

The recently passed 1996 government budget calls for a spending increase of 35 percent over 1995—a 15 percent increase in real terms. Much of the new spending involves infrastructure investment and spending on social programs. The increase in spending is to be financed in part by a controversial increase in the Value Added Tax (VAT) from 14 to 16 percent. The four-year Development Plan, known as the "Salto Social" (Social Leap), was approved by the Congress with conditions that financing must be found before the plan can be implemented, that is, it cannot be implemented through deficit spending. The central government will have a 1996 deficit of approximately 4.4 percent of GDP which will be covered by revenues from publicly-owned companies. The overall public sector is committed to achieving a fiscal surplus of 0.7 percent.

The intention to increase spending may make it more difficult for the government to achieve its target for inflation. Inflation had been gradually reduced, from 32.4 percent in 1990 to 22.6 percent in 1994, as the government resorted in 1994 and 1995 to restrictive monetary and fiscal policies. In late 1994, President Samper moved to implement his campaign promise of a "Social Pact" to cope with continuing high inflation rates. He established a formal policy, solidified by agreements with business and labor, to restrain price and wage increases and enhance productivity. 1995 inflation is projected to be slightly under 20 percent, as compared with the government's initial estimate of 18 percent.

Present monetary policy is aimed at the further gradual reduction of inflation while remedying the sharp peso revaluation of recent years. The strong peso—supported in part by uncontrolled inflows of dollars from contraband and drug trafficking—has adversely affected the price competitiveness of Colombia's exports, especially non-traditional exports. Monetary policy has also been directed at overcoming the effects of large inflows of foreign capital while maintaining control over the peso

money supply. High domestic interest rates have further boosted capital inflows, complicating monetary policy.

The 1991 Constitution mandates the transfer by the central government of significant funds to municipalities. The current government has warned that transfers to the municipalities threaten Colombia's fiscal stability; it is working to restructure the budgetary system to overcome this transfer problem. The government has in recent years generated additional revenue by privatizing some industries, but the pace of privatization is likely to slow as a result of a Court decision requiring that the Congress adopt a separate, specific bill for each new privatization. The privatization of banks in particular is proceeding less quickly than anticipated.

Colombian Law 170 of December 1994 adopted the World Trade Organization (WTO) Treaty. Colombia formally became a WTO member on April 30, 1995.

2. Exchange Rate Policies

Colombia's exchange rate policy underwent significant changes as part of the apertura program. The Central Bank's all-encompassing control over the foreign exchange regime was eased, and Colombian residents were permitted for the first time to hold legally foreign currency and maintain foreign bank accounts. The "crawling peg" system, instituted in 1967, was replaced by a floating rate system administered by the Central Bank. Since January 1994, the exchange rate operates on a free-market basis. At that time, exchange certificates were eliminated, and with them the need for a fixed dollar-peso exchange rate.

The Central Bank determined a "price band" within which the daily quotation of the peso's dollar price must move. The Central Bank may intervene in the market, buying or selling pesos to keep the currency value within the band. Each day the Banking Superintendency reports an Interbank Market Rate (TRM) based on commercial bank and financial corporation transactions.

The strength of the peso in recent years has improved the price competitiveness of U.S. exports to Colombia and has resulted in a significant shift in the balance of bilateral trade. The government and Central Bank have taken several measures against persistent peso revaluation. A ten percent tax on transfers of foreign exchange to residents of Colombia remains in effect, and enforcement and oversight have been strengthened. Since March 1994, the Central Bank has adopted regulations to limit external credit availability and to discourage the public and private sectors from incurring short-term debt in foreign currencies. Despite these efforts, revaluation continued until August 1995, when uncertainty caused by a political scandal involving allegations that President Samper's 1994 presidential campaign was funded in part by monies from the Cali drug cartel exerted considerable downward pressure on the peso. The Central Bank was obliged to pour dollars into the system to counter the sudden devaluation; even so, in 1995 the peso has been devalued about 20 percent, in nominal terms, considerably more than the Bank's 13.6 percent target. On January 12, 1996, the official peso/dollar exchange rate was Pesos 1006 to 1 USD.

3. Structural Policies

Taxes: Like exchange rate reform, tax reform was a major part of the apertura program. Apertura reduced the central government's dependence on import duties as a source of revenue; average applied tariffs fell from 42 percent in 1990 to 12 percent in 1994. To make up for lost revenue, the government raised the VAT from 10 percent in 1990 to 14 percent, with an additional increase to 16 percent projected for 1996. The Colombian Government imposes a "war tax" on producers of minerals and crude oil, two sectors with heavy foreign participation. However, as of 1996 the war tax will no longer be assessed in new contracts. Tax collection has improved in recent years due to administrative and procedural simplification and better enforcement.

Privatization: The Colombian Government initiated an ambitious privatization plan in 1991. Since that time, the nation's ports, railroads, and cellular telephone services have been sold to private owners, along with a number of chemical firms, agro-industrial enterprises, fishing companies, retail gasoline chains, and banks. However, a 1994 court decision mandated that all shares of firms being privatized must first be offered to employees, and then to such institutions as pension funds, cooperatives, and unemployment funds. Yet more recently, another court decision required the government to enact specific legislation for each future privatization.

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 30 percent local content for passenger vehicles carrying up to sixteen persons and for cargo vehicles up to 10,000 pounds; and 15 percent local content for all other vehicles.

4. Debt Management Policies

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 has in recent years prepaid approximately $1.8 billion of debt. At the end of 1994, Colombia's total public and private debt was $21.8 billion, equivalent to 32.8 percent of GDP.

The Samper Administration has continued the orthodox management of Colombia's foreign debt pursued by the previous government. The government's main debt-related objectives include obtaining a better rating for Colombian securities and increasing exposure with multilateral banks, mainly in order to provide priority financing for social programs and infrastructure improvements that are key elements of its development plan. The government also intends to continue to reduce the burden of external debt service by keeping the growth of indebtedness below GDP growth.

5. Significant Barriers to U.S. Exports

Import Licenses: The requirement for import licensing was officially abolished in 1991. Some 98 percent of tariff categories can be imported freely, requiring only prior import registration with the Colombian Trade Institute (INCOMEX). Some categories subject to prior import licensing include chemicals that could be used in drug manufacturing, armaments and munitions, imports by government entities, donations, and non-reimbursable imports.

Restrictions on agricultural imports: Although the government officially abolished the import licensing requirement in 1991, it has nevertheless used the previous import licensing system to restrict the importation of certain agricultural products. "Previous" import licenses are required for powdered milk during Colombia's high milk production seasons of May-July and August-October. Also, since July 1993 INCOMEX has required a "previous" import license for imports of chicken parts. Under this system, the government approves import licenses only when it has determined such imports will not adversely affect Colombian poultry growers.

Throughout 1994 and 1995, import licenses for U.S. chicken parts have been routinely denied. However, the government does allow relatively small quantities of poultry meat, including chicken (whole and parts), to be imported into Colombia's Caribbean islands of San Andreas and Providencia and into the relatively isolated ports of Turbo and Bahia Portete on the Atlantic Coast and Tumaco on the Pacific Coast. Chicken meat imported into these places is intended only for local consumption and the shipment of imported chicken meat from these areas to other parts of Colombia is illegal. In spite of these restrictions, significant quantities of U.S. chicken parts entered Colombia in 1994 (5,198 mt valued at 4.4 million dollars).

A key regulation implementing purchase (absorption) agreements for certain domestically produced crops is Ministry of Agriculture (MOA) Decree 2439 of November 2, 1994, which requires the MOA to approve import licenses of commodities which, if imported, would compete with the domestic products purchased under the absorption agreements, as determined by the MOA. Some of the agricultural imports that need MOA approval and are the most important U.S. agricultural exports to Colombia include wheat, chicken meat (whole bird), malting barley, corn, rice, sorghum, wheat flour, and oilseeds and their products, which includes soybeans, soybean meal and soybean oil. Private importers are more likely to have their import licenses approved if they also buy domestically produced wheat, sorghum, palm oil or malting barley, which are crops covered by the absorption agreements.

Services: Legislation permits foreign investors to own up to 100 percent of financial institutions, banking, and securities companies. There are many wholly-owned U.S. banking subsidiaries operating in Colombia. U.S. companies in the banking and securities sector receive full national treatment. Subsidiaries of U.S.-based multinational accounting and auditing firms control 80 percent of the market. Providers of these services must be registered in Colombia. However, there is no restriction on services offered by consulting firms or individuals. Colombia permits 100 percent foreign ownership of subsidiaries, but the establishment of branch offices of foreign insurance companies is not allowed.

A commercial presence is required in order to sell insurance policies other than those for international travel, or reinsurance. The provision of legal services is limited to those licensed under Colombian law. Foreign lawyers cannot perform as lawyers in Colombia without a license ("tarjeta professional"). However, foreign law firms can operate in Colombia by forming joint ventures with Colombian law firms and then conducting their activities under the license of the Colombian lawyers in the firm.

A commercial presence is required to provide data processing services. Public network programming limits foreign air time to 40 percent of the total. While there are no restrictions on advertising in the print medium, at least 50 percent of programmed advertising on a public broadcast network must have local content.

Foreign Direct Investment: Foreign direct investment (FDI) policies in Colombia are guided by the principles of equality and openness. Foreign and national investors receive equal treatment, and few restrictions are imposed on the value or destination of FDI. Legislation grants national treatment and permits 100 percent foreign ownership in virtually all sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. In late 1994, as a measure against money-laundering, the government prohibited FDI in real estate except in connection with other investment activities. Colombian law requires that, absent an exemption, at least 80 percent of employees of companies in the mining and petroleum sector be Colombian nationals.

Investment screening has been largely eliminated, and the procedures now in place are non-discriminatory. Prior approval by the National Planning Department (NPD) is required in three instances: FDI in a public service (energy, water, communications, etc.) activity; FDI covered by international insurance or risk protection agencies; and FDI in excess of 100 million dollars in mining, smelting, refining, transportation, or distribution of minerals or hydrocarbons. The appropriate Ministry must approve FDI in its sector. 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 FDI must obtain an operating license from the Superintendency of Companies and must register with the local Chamber of Commerce. The investment climate, already favorable, would be enhanced by a Bilateral Investment Treaty, but there have been no negotiations on such a treaty since July 1994.

Standards, Labeling, and Marking Requirements: The Colombian Foreign Trade Institute (INCOMEX) requires specific technical standards for a variety of products. The particular specifications are established by the Colombian Institute of Technical Standards (ICONTEC). These requirements apply to all imports. The Ministry of Economic Development adopted Decree 300 of 1995, which clarified some provisions related to the requirement that imports into Colombia obtain certificates of conformity with appropriate technical standards. Decree 300 requires that the certificate be obtained prior to the import of any product regulated by a standard. INCOMEX must verify the certificate before an import license or register will be issued. The certificate will be issued by the Superintendency of Industry and Commerce, or by an agency designated by the Superintendency. Without the certificate, the Customs authority will not authorize the release of imported products which are subject to a standard.

Specific marks or labels are required only for pharmaceutical and food products. Labels on food or pharmaceutical products must indicate the name of the product, ingredients, name and address of the manufacturer, expiration date, and total content. Pharmaceutical products must also bear a label, in the Spanish language, stating "sale under prescription," the generic name of the product, the net weight or quantity of active ingredients, the product's license number, the lot control number, and the product's expiration date.

Government Procurement: Government procurement is subject to the norms established by Law 80 of 1993. Certain articles in the law have been problematic for potential foreign investors, and may have discouraged some U.S. companies. Article 20 of Law 80 requires that foreign firms without an active local headquarters certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. The U.S. Embassy in Bogota routinely provides such certification. In practice, effects have been mixed: several road construction/rehabilitation contracts and airport contracts for U.S. companies have been approved with little ado; on the other hand, a U.S. company is currently in litigation over the procurement process by which it lost the contract for equipment for a thermoelectric power plant in Barranquilla. Colombia is not a party to the plurilateral Agreement on Government Procurement concluded during the Uruguay Round.

Customs Procedures: Customs procedures have been simplified. The inspection of imported merchandise, previously performed only by Customs officials at the port of entry, can now be pre-arranged through Pre-shipment Inspection Companies authorized by the Customs Directorate (DIAN). Duties can be pre-determined by the importer and paid at commercial banks. Customs clearance can now often be completed in a matter of hours. Customs officials may perform random inspections to verify conformity of description and classification. Unfortunately, the advantages for legitimate importers are also a boon for smugglers and contrabandists, as Colombian Customs now exercises less rigorous control than in the past.

6. Export Subsidies Policies

Colombia has sharply reduced its export subsidies, and its subsidy practices appear generally compatible with WTO standards. At present the Colombian government manages and oversees only two export subsidy programs, the CERT ("Certificado de Reembolso Tributario") and the Plan Vallejo mechanism. The CERT is an indirect tax rebate certificate refunding a percentage of the FOB value of an export. Due to a 1990 agreement between the U.S. and Colombia, the CERT does not apply to exports to the United States. The Plan Vallejo allows for duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported.

7. Protection of U.S. Intellectual Property

Although Colombia continues to improve protection of intellectual property rights through Andean Pact Decisions, Colombia remained on the U.S. Special 301 Watch List in 1995 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 judicial system. The most recent round of negotiations on a bilateral U.S.-Colombia agreement for the protection of intellectual property rights took place in July 1994.

Colombia is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the three major international conventions on patent protection. In late 1994, the Colombian Congress adopted a law ratifying Colombia's accession to the Paris Convention for the Protection of Industrial Property. However, Colombia's Constitutional Court found some procedural irregularities in the adoption of the law and it had to be re-adopted by the Congress. It is once again under review by the Court. As membership in the Patent Cooperation Treaty (PCT) is tied to membership in the Paris Convention, Colombia has been unable to join the PCT. The bill for ratification of the Convention of the Union for the Protection of New Plant Varieties (UPOV) is expected to be approved by the Colombian Congress in the near future.

Patents: Andean Pact Decisions 344 and 345 provide patent protection for most products, including pharmaceuticals, biotechnology, and plant varieties. These decisions represent a significant improvement over previous standards used for the protection of intellectual property. Decision 344 has two lists: one encompassing items not considered inventions; the other covering inventions that are not patentable. Pharmaceuticals on the World Health Organization list of "essential medicines" are included on the second list. However, Decision 344 still falls short of U.S. goals in several respects, and is inconsistent with several provisions of the WTO agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). Several decisions of courts in Andean Pact countries declare "pipeline" protection non-existent under Andean Pact legislation.

Semiconductors: Semiconductor design layouts are not protected under Colombian law. The Colombian Copyright Office has expressed its willingness to discuss the issue, but there has been no progress on this issue in the past year.

Copyright protection: In 1994 Colombia adopted Andean Pact Decision 351, which harmonizes, integrates and modernizes the laws of the five Andean Pact countries. It also expressly protects software. In general, however, Decision 351 does not significantly alter copyright protection in Colombia, which is based on Law 23 of 1982 and Law 44 of 1993. Colombian law provides copyright protection for the life of the author plus 80 years. If the holder of the rights to a 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 amendments to the copyright law made in 1993 have significantly increased penalties for infringement, weak enforcement remains a serious problem. Video cassette and satellite signal piracy continue to be widespread.

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.

Trademark: Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. Colombia requires registration and use of a trademark in Colombia to exercise trademark protection. Trademark registrations have a ten-year duration and may be renewed for successive ten-year periods. 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 have a cause of action against importation of products from other Andean Pact countries that bear their trademarks without authorization, unless the use of that trademark

is legal in the other Andean Pact member country. Enforcement of trademark legislation in Colombia is making some progress, though contraband and counterfeiting are widespread.

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.

8. Worker Rights

a. *The Right of Association.*—The law recognizes the rights of workers to organize unions and strike. The Labor Code provides for automatic recognition of unions that obtain at least 25 signatures from the workplace and comply with a simple registration process at the Labor Ministry. The law penalizes interference with freedom of association. It also stipulates union freedom to determine internal rules, elect officials, and manage activities, and forbids the dissolution of trade unions by administrative fiat. According to Labor Ministry estimates, only about eight percent of the work force is organized. Unions freely establish international affiliations without government restrictions.

The 1991 Constitution provides for the right to strike by non-essential public employees and authorizes Congress to pass enabling legislation that would define "essential," which it has not yet done. In the absence of this definition, existing legislation which prohibits public employees from striking is still in force. Before staging a legal strike, unions must negotiate directly with management and—if no agreement results—accept mediation. By law, public employees must accept binding arbitration if mediation fails; in practice, public service unions decide by membership vote whether or not to seek arbitration.

b. *The Right to Organize and Bargain Collectively.*—The Constitution protects the right of workers to organize and engage in collective bargaining. Workers in larger firms and public services have been most successful in organizing, but these unionized workers represent only a small portion of the economically active population. High unemployment, traditional anti-union attitudes, and weak union organization and leadership limit workers' bargaining power in the private sector and in agriculture.

The law forbids anti-union discrimination and the obstruction of free association. Government labor inspections theoretically enforce these provisions, but because of the small number of inspectors and workers' fears of losing their jobs, the inspection apparatus is weak. The new Labor Code increases the fines levied for restricting freedom of association and prohibits the use of strike breakers.

Labor law applies to the country's seven free trade zones (FTZ's), but has been difficult to enforce. Public employee unions have won collective bargaining agreements in the FTZ's of Barranquilla, Buenaventura, Cartagena, and Santa Marta, but some important FTZ enterprises are not organized. National labor leaders claim that in these FTZ's the provisions of the Labor Code dealing with wages, hours, health and safety are not honored.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution forbids slavery and any form of forced or compulsory labor, and this prohibition is respected in practice.

d. *Minimum Age for Employment of Children.*—The Constitution bans the employment of children under the age of 14 in most jobs, and the Labor Code prohibits granting work permits to youths under the age of 18. This provision is respected in larger enterprises and in major cities. Nevertheless, Colombia's extensive informal economy, as well as specific areas such as agriculture, street vending, leather tanning, and small family-operated mines, remain effectively outside government control.

e. *Acceptable Conditions of Work.*—The government annually sets a national minimum wage which serves as a benchmark for wage bargaining. The current minimum wage—about $124 per month—is earned by over one-quarter of the population. Although consistent with the government's anti-inflation policies, the minimum wage falls far short of providing an adequate standard of living for a worker and family, which by government estimates would require 2½ times the minimum wage.

The law provides for a standard workday of 8 hours and a 48-hour workweek, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to the small number of Labor Ministry inspectors.

f. *Rights in Sectors With U.S. Investment.*—All foreign investors are subject to Colombian laws protecting worker rights. U.S. foreign direct investment is concentrated principally in the petroleum, coal mining, chemicals, and manufacturing industries. Worker rights conditions in those sectors tend to be superior to those prevailing elsewhere in the economy owing to the large size and high degree of organization and sophistication of the enterprises. Examples include shorter than average working hours, higher wages, and occupational health and safety standards above the national average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,318
Total Manufacturing		994
Food & Kindred Products	267	
Chemicals and Allied Products	341	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	3	
Electric & Electronic Equipment	32	
Transportation Equipment	(1)	
Other Manufacturing	236	
Wholesale Trade		230
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		13
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,442

[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]

	1993	1994	1995[2]
Income, Production and Employment:			
Real GDP (current dollars)	7,563.1	8,325.1	8,500.0
Real GDP Growth (percent)	6.3	4.5	2.5
GDP Growth by Sector (percent):			
Agriculture	2.4	2.6	2.0
Industry	6.4	4.2	3.0
Electricity, Water	5.6	7.5	7.5
Construction	16.5	4.2	2.0
Commerce	7.5	5.0	4.0
Transportation/Communications	10.7	7.5	7.5
Financial, Insurance	12.4	7.0	7.5
General Government	2.0	2.5	2.0
Other personal service	6.0	5.0	4.5
Real GDP per capita (current dollars)	2,317	2,543	2,500
Labor Force (thousands)	1,143	1,187	1,230
Unemployment (percent)	4.1	4.2	4.7
Money and Prices:			
Money Supply (M1, daily avg.)	128,208	162,916	183,602
Interest Rate (lending, percent)	37.0	38.0	42.0
Gross Domestic Investment (percent of GDP)	25.9	26.0	22.0

Key Economic Indicators—Continued

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

	1993	1994	1995[2]
Consumer Price Index (percent change year end)	9.1	19.9	22.0
Exchange Rate (colons/US$):			
(Avg, Balance of Payments)	142.4	155.0	182.0
(December, parallel market)	152.0	168.0	198.0
Balance of Payments and Trade:			
Total Exports (FOB)	1,850.7	2,092.2	2,424.0
Exports to U.S. (FOB)	850.0	915.0	970.0
Total Imports (CIF)	2,918.4	3,098.4	3,300.0
Imports from U.S. (CIF)	1,300.0	1,470.0	1,700.0
Aid from U.S.[1]	20.5	3.3	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	3,158.4	3,255.5	3,394.4
Annual Debt Service Paid	538.0	449.0	532.0
Gold Reserves	9.0	13.0	13.0
Net International Reserves	751.9	757.6	802.8
Current Account Balance	−663.5	−459.5	−271.3

Source: Ministry of Planning, Central Bank of Costa Rica.

[1] 1993 figure includes ESF obligated but never disbursed.
[2] In 1995, the IMF accepted Costa Rican methodology for calculating reserves.

1. General Policy Framework

In order to address a range of economic problems, the Government of Costa Rica is seeking to strengthen trade and economic policies in favor of open markets, international competition, freer trade, and better social infrastructure. These policies are supported through active International Monetary Fund (IMF), World Bank and Inter-American Development Bank (IDB) programs. Setbacks to this general policy have resulted from European Union restrictions on banana exports, domestic pressure to restrict foreign competition, constitutional protection of state-owned monopoly enterprises, and domestic political pressures resulting from uneven economic growth. Five laws passed in 1995 aimed at streamlining government procurement practices, undertaking major financial and fiscal reforms, and easing the burden on public finances posed by public employees pension plans, are expected to have positive effects starting in 1996.

The pace of economic growth continued to slow in 1995. While Costa Rica's gross domestic product (GDP) increased 4.5 percent in 1994 (compared with a 6.3 percent increase in 1993), growth in 1995 is likely to be about 2.5 percent. This slower growth stems from less dynamic tourism and construction sectors, diminished investment and lower aggregate consumption. Both investment and consumption have been hindered by domestic loan interest rates exceeding 40 percent per annum. Financial intermediation continued robust growth, increasing 7.0 percent in 1994 and reflecting a large interest rate spread of about 14 percent. Communications, transportation and storage also grew 7.5 percent, and electricity and water increased 7.5 percent, largely the consequence of price increases in state-supplied (monopoly) services. Industry grew 4.2 percent and agriculture 2.6 percent in 1994. Commerce, restaurants and hotels grew 5.0 percent in 1994 (versus 7.5 percent in 1993), reflecting slowed tourism growth.

The central government's fiscal deficit reached $533 million in 1994, vs. $145.7 million in 1993 and $129.8 million in 1992. The central government deficit in 1994 was equivalent to 7.0 percent of GDP, in comparison with a 1.9 percent share of GDP in 1993 and 1992, and 3.1 percent of GDP in 1991. According to Central Bank data, the consolidated Public Sector fiscal deficit totalled $647 million in 1994, equivalent to 8.2 percent of GDP, compared to 0.8 percent of GDP in 1993. While central government income increased 15.2 percent in 1994, internal borrowing increased 162.3 percent in 1994 (142.4 percent in 1993).

In 1994 the Central Bank continued to use a range of tools to control the growth of the money supply, such as open market operations, restriction of public sector credit, and increases in the reserve requirements of commercial banks. Starting August 1, 1993, the Central Bank raised by two percent per month the reserve requirement for local currency demand deposits; the reserve requirements on checking ac-

count deposits reached 43 percent by October 1995. The Central Bank announced in late October 1995 that reserve requirements for checking account deposits will be gradually reduced to 15 percent over a period of three years. The rate of interest paid by the Central Bank for its monetary stabilization bonds was 28.5 percent per annum (6-month rate) on October 26, 1995.

Costa Rica became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policies

The exchange rate policy in 1995 continued practices set in March 1993 by the Central Bank involving daily mini-devaluations of the currency, aimed primarily at 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. 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.

During 1995, the exchange policy resulted in an 18 percent depreciation of the colon against the U.S. dollar (vs. a 9.2 percent depreciation in 1994). As of January 12, 1996, the colon/dollar exchange rate was colons 195.78 to 1 USD. Freely-traded dollars from tourism and capital investment continue to flow into Costa Rica, partly offsetting the impact of the trade deficit on the current account. The free and sufficient supply of foreign currency continued to be a significant factor in increasing imports during 1995.

3. Structural Policies

Until January 19, 1995, consumer protection laws in Costa Rica regulated prices and profit margins and prohibited price speculation, although most price controls and all margin controls had been suspended by executive decree. On that date, Law No. 7472, for the Protection of the Consumer, removed most price and all profit margin controls, while imposing antitrust rules and protecting consumers against product misrepresentation and price fixing.

In September 1995, legislation was enacted which increased the sales tax from 10 to 15 percent for 18 months (after which it is scheduled to fall to 13 percent) and introduced a one-percent tax on company fixed assets, with a full exemption for firms with fixed assets of less than about $160,000. Companies are entitled to a credit on their Costa Rican corporate income tax equal to their fixed asset tax payments.

4. Debt Management Policies

Costa Rica's foreign debt totalled $3,256 million on December 31, 1994 (equivalent to 41.3 percent of GDP), an increase of $97 million from year-end 1993. Costa Rica paid $449 million for debt service in 1994, equivalent to 21 percent of exports. Costa Rica will continue to experience pressure on its balance of payments, especially its trade account, and will need to continue to attract foreign investment and tourism to avoid foreign exchange shortages. The need to service its foreign debt and restore macroeconomic stability propelled many of the economic reforms of 1995, which were conditions for Costa Rica to establish its stand-by program and obtain some loan disbursements from the IDB.

Servicing the very large internal debt continues to be a serious immediate problem. Almost a third of the government's budget is spent on servicing the domestic debt, more than the amount spent in paying public employees, leaving little for making capital improvements. The Central Bank's anti-inflation policy results in high interest rates which boost debt service costs for the Finance Ministry.

In September 1995, the government of Costa Rica and the IMF signed a letter of intent providing for a $75 million 15-month standby agreement. The agreement, which was approved by the IMF Executive Board on November 29, 1995, envisages a fiscal deficit equivalent to 3.5 percent of GDP in 1995 and 0.5 percent in 1996. The standby calls for the payment of all Paris Club arrears by March 1996. In October 1995, in compliance with terms of the letter of intent, Costa Rica paid approximately $60 million in Paris Club arrears.

During 1994, Costa Rica's balance of payments improved as the trade deficit receded from the record high level in 1993. While FOB exports reached $2.1 billion, imports CIF amounted to $3.1 billion, yielding a $1 billion deficit in the trade portion of balance of payments accounts. This deficit is nearly matched by capital inflows and tourism income. The 13 percent increase in exports registered in 1994 was due in part to slower growth in draw-back exports and non-traditional exports

(4.9 percent increase in 1994 vs. 15.8 percent increase in 1993). Income from traditional exports grew 13.9 percent in 1994 (4.0 percent in 1993), primarily as a consequence of higher coffee prices. Total imports grew 6 percent in 1994, a considerable reduction from the 18.2 percent increase registered during 1993. Imports of consumer goods, capital goods and raw materials for industry all grew in 1994, but at much slower rates than during 1993. The current account deficit by the end of 1994 was $460 million, vs. a deficit of $664 million in 1993.

5. Significant Barriers to U.S. Exports

As of December 1994, in compliance with the GATT Uruguay Round requirements, all import permits were 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 and/or the Ministry of Agriculture prior to any sale. The Central Bank no longer licenses imports. All imports and exports are registered for statistical purposes only.

Investment: The Government encourages the development of nontraditional exports and tourism. It does not restrict foreign equity participation. 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, the production and distribution of electricity, hydrocarbon and radioactive minerals extraction and refining, the operation of ports and airports and bank demand deposits. The share of foreign workers in an enterprise is limited by law, but the Ministry of Labor generally grants permission for foreigners to work. Permits for foreign participation in management have always been granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

A recently-amended electricity co-generation law allows some private sector participation in the energy sector. The private sector can generate electricity for its own use and for sale to ICE (the state-owned electricity and telecommunications company), in plants up to 20 MW capacity, with a maximum of 65 percent foreign ownership, as long as total private-sector production does not exceed 15 percent of ICE's installed generating capacity. Current private-sector project reached this 15 percent limit. Recognizing the difficulty of public financing of large scale infrastructure projects, the legislature recently passed a modification to the electricity co-generation law allowing for BOT (build-operate-transfer) and BLT (build-lease-transfer) plants which in total may not exceed an additional 15 percent of ICE's installed capacity. Such plants will revert to the state after an agreed-upon period.

The government's expropriation policy has been a disincentive to some prospective U.S. investors 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. The current government has made significant progress in resolving a number of expropriation cases. However, several U.S. citizens with property claims have not yet received prompt, adequate or effective compensation. Some unpaid U.S. expropriation claims date back over 25 years. While it is 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.

Claimants also have recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID), which Costa Rica acceded to in early 1993. Negotiations to finalize submission of the first local expropriation case to ICSID continue between the Government of Costa Rica and a group of U.S. investors. 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 far from adequate. In some cases, the government has resolved squatter invasions by expropriating the invaded properties and distributing the land to the squatters or by purchasing other properties and relocating the squatters.

Services: Many service industries are so rigorously controlled that foreign participation is practically impossible. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers, and other professionals must be members of local guilds which stipulate residency, examination and apprenticeship requirements that can only be met by 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 Con-

stitutional Court of Costa Rica deemed the law discriminatory and therefore unconstitutional.

Financial reform legislation, approved by the Legislative Assembly in October 1995, will allow private banks to offer demand deposits ten months after the publication of the new law, which was expected in November 1995 but is still pending. A private bank will be authorized to accept demand deposits if it meets certain conditions. These include placing 17 percent of deposits with maturities of less than 30 days at lower-than-market interest rates with the state banks. Alternatively, a private bank must operate a minimum of four branches in rural areas, and lend an amount equivalent to 10 percent of its deposits with maturities of less than 30 days at subsidized interest rates.

Standards and other barriers: 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 the Spanish language, and strength requirements for car bumpers. Sanitary and phytosanitary restrictions on the import of fresh produce, as well as high tariffs on 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 Procurement: The government and other state institutions procure 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 (Comptroller General). On May 2, 1995, the Legislative Assembly enacted Law No. 7494 for Administrative Contracting, scheduled to enter into force May 1, 1996. The main purpose of the law, and of the regulations being prepared by the Executive Branch, is to simplify procedures and in general expedite as much as possible contracting with state institutions.

Public bidding has traditionally been complicated and foreign bidders are frequently disqualified for failure to comply with the detailed procedures. All exporters must have a legally responsible representative in Costa Rica in order to sell goods or services in Costa Rica. The lengthy and costly appeal process often causes losses due to interim price changes while bidders cannot alter their bids. 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.

Customs procedures: Customs regulations and 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 is implementing a profound reform to automate and streamline the system 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 has established a one-stop window to speed up export and import transactions.

Costa Rica's Legislative Assembly ratified the GATT Uruguay Round in December 1994. Legislation implementing the World Trade Organization (WTO) entered into force January 1, 1995, making Costa Rica a charter WTO member.

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 cocoa 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 possibly inconsistent with GATT rules. Existing export contracts call for the issuance of CATS until 1996. 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.

Export companies wishing to locate in duty free production zones can benefit from exemption from import duties on raw materials and products, from exemption from all export, sales and consumer taxes, from exemption from taxes on remittance

abroad, and from taxes on profits for a period of six years from the beginning of operations, and a 50 percent exemption for the following four years.

7. The Protection of U.S. Intellectual Property

Costa Rica is a signatory to most major intellectual property rights (IPR) conventions and agreements, and is a member of the World Intellectual Property Rights Organization. In November 1994, Costa Rica was a signatory to the revised Central American Convention on Industrial Property, which has not yet been ratified.

Significant weaknesses exist in the country's IPR system, particularly in enforcement and in patent protection. Consequently, in April 1995 Costa Rica was placed on the Special 301 "Watch List" for failing to provide adequate protection of intellectual property rights. In May 1995, the Legislative Assembly ratified the Paris Convention for the Protection of Industrial Property. The government sent a draft patent law to implement its commitments under the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) to the Legislative Assembly in September 1995. The draft proposed a five-year transition period for IPR, including pharmaceuticals, which would end in 1999.

Patents: Costa Rica is a signatory to the following patent conventions: Convention of Paris (1883); and Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906).

Costa Rican patent laws are deficient in several key areas. The patent protection term is far too short. Patents are granted for 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.

Copyrights: Costa Rica is a signatory to the 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 problem is weak 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 issued regulations to Law No. 6683 that provide better protection and mandate police participation in enforcement. The cable television industry now operates almost entirely under quitclaim agreements with foreign producers. However, a number of hotels continue to pirate satellite transmission signals. Pirated videocassettes are widely available. An authorized distributor of videocassettes has begun enforcement efforts to regularize the videocassette market.

Trademarks: Costa Rica is a signatory to the following trademark conventions: Paris Convention (1883); Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Property (1906); and Central American Treaty on Industrial Property (1970).

Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is 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 long and expensive.

Trade Secrets are protected by existing laws, and Article 24 of the Constitution protects the confidentiality of communications. The penal code stipulates prison sentences for divulging trade, employment or other secrets, and doubles the punishment for public servants. Some existing laws also stipulate criminal and civil pen-

alties for divulging trade secrets. The burden of enforcement is on the affected party.

8. Worker Rights

a. *The Right of Association.*—The law specifies the right of workers to join unions of their choosing without prior authorization, although barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Some trade union leaders contend that formation of solidarity employee associations hinders the right of association. After the International Labor Organization (ILO) ruled that involvement of solidarity associations in trade union activities violated freedom of association, the government amended the Labor Code in 1993 to prohibit these associations from participating in collective bargaining or direct agreements on labor conditions. In 1994, the ILO ruled that these and other planned changes fostered greater freedom of association.

b. *The Right to Organize and Bargain Collectively.*—The Constitution protects the right to organize. 1993 Labor Code reforms provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Private sector unions have the right to engage in collective bargaining. Public sector workers, however, cannot engage in collective bargaining, because the 1978 Public Administration Act makes labor law inapplicable in relations between the Government and its employees.

Costa Rica has no restrictions on the right of private-sector workers to strike, but very few workers in this sector belong to unions. The Constitution and Labor Code restrict the right of public-sector workers to strike. In 1993, however, the Government repealed Labor Code penalties against public-sector workers who engage in strikes. In 1995, the ILO encouraged the Government to repeal Labor Code provisions restricting the right to strike in certain nonessential sectors and to approve legislation to allow unions to administer compensation funds for dismissed workers. In mid-1995, teachers unions conducted a largely peaceful, month-long strike to protest changes in teachers' pensions.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor. The country had no known instance of such practices during 1995.

d. *Minimum Age for Employment of Children.*—The Constitution provides special employment protection for women and children and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. Children between 15 and 18 can work a maximum of 7 hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of 5 hours daily and 30 hours weekly. Authorities prohibit employment of youths under 18 in the banana industry. The National Institute for Children, in cooperation with the Labor Ministry, effectively enforces these regulations in the formal sector, but child labor remains an integral part of the large informal economy.

e. *Acceptable Conditions of Work.*—The Constitution provides for a minimum wage, and a National Wage Council sets minimum wage and salary levels for all sectors. Monthly minimum wages, adjusted in July 1995 for the private sector, range from the equivalent of $121 for domestic servants to $587 for certain professionals. Public-sector negotiations normally follow the settlement of private-sector negotiations. The Constitution also sets workday hours, overtime remuneration, days of rest, and annual vacation rights. Workers may work a maximum of 8 hours during the day and 6 at night, up to weekly totals of 48 and 36 hours, respectively. Nonagricultural workers receive an overtime premium of 50 percent of regular wages for work in excess of the daily work shift. Agricultural workers do not receive overtime if they voluntarily work beyond their normal hours.

A 1967 law of health and safety in the workplace requires industrial, agricultural, and commercial firms with 10 or more workers to establish a management-labor committee and allows the Government to inspect workplaces and to fine employers for violations. The Ministry of Labor effectively enforces working conditions in the San Jose area, but less effectively in rural areas. The ILO has asked the Government to enact provisions on accident prevention for seafarers.

f. *Rights in Sectors With U.S. Investment.*—All labor regulations apply throughout Costa Rica, including in the country's export processing zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. management and ownership. Abuses occur more frequently at plants operated by non-U.S. foreign investors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		355
Food & Kindred Products	136	
Chemicals and Allied Products	105	
Metals, Primary & Fabricated	21	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	35	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		(2)
Services		6
Other Industries		−23
TOTAL ALL INDUSTRIES		584

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

DOMINICAN REPUBLIC

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1970 prices)	4,228.7	4,358	4,510.6
Real GDP Growth (percent)	3.0	2.5	3.5
GDP (current prices)	8,689	9,172	11,533
GDP by Sector:			
Agriculture	1,304	1,376	1,499
Energy and Water	174	183	231
Manufacturing	1,390	1,467	2,076
Construction	608	642	1,038
Housing	608	642	576
Financial Services	521	550	576
Other Services	869	917	923
Government, Health and Education	869	917	1,038
Others	2,346	2,476	3,544
Net Exports of Goods and Services	−749.5	−689.7	N/A
Real per capita GDP (1985 prices in DR pesos)[2]	2,124	2,131.5	2,159.3
Labor Force (000s)[3]	3,370	3,434	3,499
Unemployment Rate (percent)[4]	30	30	30
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	28	8	17
Base Interest Rate (percent)[5]	29	27	30
Personal Savings Rate (percent)	N/A	N/A	N/A
Retail Inflation	8	14	9.5
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index[6]	800	915.3	1,002
Exchange rate (DR peso/US$):			
Official	12.75	12.87	12.87

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Parallel	12.60	14.00	13.85
Balance of Payments and Trade:			
National Exports (FOB)[7]	530.4	644.0	837.7
Trade Zone Exports (value added)	401	496	535.7
Exports to U.S.[8]	2,671.5	3,093.9	2,867.5
National Imports (FOB)[7]	2,118.4	2,275.8	2,867.5
Imports from U.S.[8]	2,349.5	2,799.5	N/A
Aid from U.S.[9]	21.9	15.5	11.8
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	4,685.4	3,900.0	N/A
Debt Service Payments (paid)	N/A	N/A	435
Gold and Forex Reserves[10]	714.2	250.0	500.0
Trade Balance[7]	−1,588	−1,631.8	−2,029.8
Trade Balance with U.S.[8]	322	294	N/A

Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.

[1] U.S. Embassy projections for 1995.
[2] Source: The Dominican National Statistics 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 1995 figure is as of July 1995. Short term (90 day) credit costs (prime rate).
[6] Base is November 1984.
[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 under the Caribbean Basin Initiative.
[9] Calculation based on U.S. government fiscal year.
[10] Embassy estimate for December 1995.

1.General Policy Framework

During 1995, the Dominican Republic continued the economic growth of 1994. Official inflation fell to about 9 percent at an annual rate. Money supply growth was limited from October 1994 to November 1995 by the Central Bank. Bank supervision was strengthened and the government-owned Reserve Bank limited loans to profligate state enterprises. (In the case of the state-owned Compania Dominicana de Electricidad, the monopoly electricity utility, however, the central government has repeatedly provided subsidies without regard to efficiency or production targets.) The money supply is regulated by the central bank issuance of new money through the banking system. Since there is no secondary market for government securities and no liquid securities market of any type, the central bank's options are limited. Reserve ratios for banks are rarely used to regulate money supply or credit. Banks resort to the discount window of the central bank only rarely. Foreign exchange reserves rose to about $455 million.

Government cash flows are approximately in balance although on an accrual basis there is probably a significant deficit. For example, the government has accumulated large arrears due to domestic suppliers and contractors. The domestic arrearage has been variously put at the peso equivalent of $158 million to $600 million (or as much as 5.5 per cent of GDP). The exact size of this debt may be unknown even to the Dominican Government. This domestic debt is owed to foreign investors operating in the Dominican Republic as well as purely local firms. It is not clear that it could be paid quickly without sacrificing inflationary goals; given current fiscal and monetary conditions, there is substantial doubt about the willingness or ability of the Dominican Government to pay this debt.

The Dominican Republic became a member of the World Trade Organization (WTO) on March 9, 1995. The Dominican Government is currently negotiating a modification of its Uruguay Round tariff bindings on milk, chicken, beans, corn, onions, garlic, rice, and sugar.

2.Exchange Rate Policies

The official Central Bank exchange rate continues at an overvalued level, which tends to act as a hidden tax on exporters and has impeded their ability to compete with Mexico and other, especially in the textile market. The "free market rate" used

by the commercial banking system and the foreign exchange houses varied between RD pesos 13.40 and RD pesos 14=1 USD. (The exchange rate on January 12, 1996 was pesos 13.53 to 1 USD.) Revaluation from the October 1994 rate of RD pesos 14.7=1 USD occurred during the year with sporadic interventions by the Central Bank in the market. Because of the Dominican Republic's very high propensity to import, changes in the exchange rate are politically significant. The need to keep the peso stable forces the Central Bank to maintain a high interest rate structure to retain short term capital. Foreign exchange operations also play a role in meeting money supply targets since the Central Bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

Traditional exporters such as sugar, cocoa, and coffee producers are still required by law to sell foreign exchange at the Central Bank rate, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial banking system.

3.Structural Policies

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 reduced and capital gains are no longer considered exempted income. Nearly 40 percent of government revenues come from duties, taxes and fees collected on imports.

While most domestic prices are determined by market forces, distortionary government policies limit the full operation of market forces. Government regulations represent a barrier to stronger economic growth, while presenting significant opportunities for corruption. For example, a new gasoline service station requires 10 permits, one of which must be signed by the president. Given the difficulties involved in obtaining any permits in a country of chronically underpaid civil servants, U.S. petroleum companies, for example, almost never open a new station, preferring to leave this activity to Dominicans.

In May, 1992 a new labor code was promulgated. Provisions of this new code increase a variety of employee benefits. In January 1995 the minimum wage was increased by 20 percent, substantially more than the rate of inflation or devaluation for the second year in a row. These factors have raised labor costs in the Dominican Republic.

4. Debt Management Policies

The total external debt of the Dominican Government is now approximately $3.8 billion, or approximately 35 percent of GNP.

The Dominican Government has continued timely payments of foreign private bank debt and was generally timely in its payments on renegotiated Paris Club debt. 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 package involved a combination of buy-back schemes and U.S. Treasury backed rescheduling.

Arrearages to the US Department of Agriculture Commodity Credit Corporation (CCC), however, have grown to over $90 million. In July the Central Bank began monthly payments of interest and some principal in the amount of $2.1 million, but the total remains stable at about $90 million as new arrearages to CCC accumulate. Government payments to foreign non-financial institutions are notoriously slow. Some debts are ten years old.

5.Significant Barriers to U.S. Exporters

Tariffs: 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 regime, the 1990 decree still left the Dominican Republic with high trade barriers. 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.)

The maximum 35 percent rate acts as an effective barrier to trade, especially given the add-on effect of other taxes and fees. For example, 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.

Investment: Legislation designed to improve the investment climate passed in November 1995. However, government seizures of foreign investors' property, refusal

to honor customs exoneration commitments, and refusal to consider claims for payment continue to reduce the attractiveness of the investment climate, notwithstanding passage of the new law, which does not contain procedures for settling disputes arising from Dominican Government actions (the largest source of investment disputes). 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 does not recognize the general right of investors to binding international arbitration.

Foreign investment must receive approval from the Foreign Investment Directorate of the Central Bank in order to qualify for repatriation of profits (the new law provides for repatriation of 100 percent of profits and capital). The granting of such approval sometimes is time-consuming and the procedures are confusing. 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.

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. Although all mineral resources belong to the state, which controls all rights to explore or exploit them, private investment has been permitted in selected sites. Currently foreign investors are exploring for gold, natural gas and oil, and copper. The process of choosing and contracting such areas has not been transparent. Foreign ownership of more than approximately one-half acre (2,000 square meters) requires presidential approval.

Businesses operating in the Dominican Republic cannot depend on the electric 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.

Investors operating in the Dominican Republic's free trade zones can receive an array of investment benefits (see Section 6) and appear to experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above. The onerous restrictions on profit remittances did not apply to free trade zone businesses even before passage of the new foreign investment law.

Customs Procedures: 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. Fees for this service vary by consulate but can be quite substantial. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

Customs valuation practices remain problematic. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use higher figures. This applies to all imports to the country. Furthermore, the Customs department interpretation of exonerated materials being brought into the country still provokes many complaints and businesspersons here must spend considerable time and money to get items through customs. Finally, the use of "negotiated fee" practices to gain faster customs clearance acts as a further trade barrier.

Government procurement: Corruption and the lack of transparency in procurement practices are a problem. 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 of the governments'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.

Sanitary and Phytosanitary Barriers: There are food and drug testing and certification requirements, but these are not burdensome.

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 production 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. In practice, use of the Export Incentive Law to import raw materials for processing and re-export is cumbersome and delays in clearing customs can take anywhere from 20–60 days. Such delays have made completion of production contracts with specific deadlines

difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs procedures which, although more costly, appear more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

7.Protection of U.S. Intellectual Property

Although the Dominican Republic is a signatory to the Paris Convention on industrial property and the Universal Copyright Convention, and in 1991 became a member of the World Intellectual Property Organization, the lack of a strong enforcement efforts results in inadequate protection of intellectual property rights (IPR). When it became a member of the WTO, the Dominican Republic became subject to requirements to strengthen IPR protection under the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). The U.S. Embassy in Santo Domingo has raised the issue of inadequate IPR with the Dominican government and continues to treat this as an important issue.

Patents (product and process): patents are difficult to get and almost impossible to enforce against a determined intellectual property thief. In a local pharmaceutical market of approximately US $110 million per year, 70 percent of the total is locally produced or packaged, of which a significant per cent is believed to be counterfeit.

Trademarks and Copyrights: Apparel trademarks are counterfeited and sold in the local market. The Embassy has also heard complaints that video and audio recordings are being counterfeited. Software piracy is also a problem.

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, although this problem was settled with payments to the motion picture exporters association and agreements regarding future payments. 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 is divided among three principal confederations, four minor confederations, and a number of independent unions, but is estimated to represent no more than 10–15 percent of the work force. 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 free trade zones have also been the scene of some management/labor disputes including the first legal strike against a company in November 1995 (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) where alleged abuses have included forced recruitment, compulsory labor, and restrictions on freedom of movement. Instances of forced labor and restrictions on movement occurred in isolated instances on CEA plantations. Forced labor has not been a problem in other areas.

d. *Minimum Age for Employment of Children.*—The labor code prohibits the 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 pe-

riod of 36 hours each week. In practice, a typical workweek is Monday through Friday plus a 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. Investment.*—U.S.-based multinationals active in the free trade zones represent one of the principal sources of U.S. investment in the Dominican Republic. 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 elsewhere in the country.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		206
Food & Kindred Products	4	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	−3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	181	
Wholesale Trade		3
Banking		(1)
Finance/Insurance/Real Estate		3
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,196

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

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

ECUADOR

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (at 1985 prices)	11,756	12,226	12,593
Real GDP Growth (percent)	2.0	4.0	3.0
GDP (at current prices)	14,311	16,555	17,880
GDP by Sector:			
Agriculture, Fishing	1,733	1,951	2,046
Petroleum, Mining	1,534	1,791	1,928
Manufacturing	3,112	3,541	3,828
Electricity, Gas, Water	40	47	56
Construction	699	880	953
Transport, Communications	1,277	1,530	1,704
Commerce, Hotels	2,894	3,276	3,536
Finance, Business Services	718	846	890
Government, Other Services	1,531	1,779	1,927

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Sales Tax, Other	775	913	1,074
Net Exports (Goods & Services)	90	310	[2]231
Real Per Capita GDP ('85 US$)	1,071	1,090	1,099
Labor Force (est.—000s)	3,503	3,590	3,670
Open Urban Unemployment (percent)	9.4	7.1	N/A
Money and Prices (annual percentage growth)			
Money Supply (M2 Growth)	54.0	58.0	32.0
Base Interest Rate	33.8	34.6	[3]44.0
Personal Savings Rate	5.3	N/A	N/A
Consumer Price Inflation	31.0	25.4	22.0
Exchange Rate (sucres/US$)	1,918	2,197	[4]2,580
Balance of Payments:			
Merchandise Exports FOB	3,062	3,717	4,400
Exports to U.S.	1,410	1,576	1,900
Merchandise Imports CIF	2,562	3,642	4,200
Imports from U.S.	824	922	1,050
Aid from U.S. (fiscal year)	18.0	16.6	12.7
Aid from Other Countries	112	128	160
External Public Debt	13,025	13,758	[5]12,594
Debt Service Payments	902	1,202	[5]8,848
Foreign Exchange Reserves	1,254	1,712	1,600
Merchandise Trade Balance	FOB	588	435 320
Balance with U.S. (est.)	640	760 850	
Current Account Balance	−682	−807	−737

[1] 1995 estimates based on data available in November 1995.
[2] GDP net exports not including interest payments.
[3] Average annual interest rate for 90-day bank deposits.
[4] Average annual free market exchange rate.
[5] 1995 debt stock and service payments as of July 31, 1995. Debt service includes $6.1 billion in principal refinancing and interest capitalization of commercial bank debt in February 1995.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production, along with exports of bananas, shrimp, and other primary agricultural products. Industry is largely oriented to servicing the domestic market, but is becoming more export-oriented. During the oil boom of the 1970's, the Ecuadorian government borrowed heavily from abroad, subsidized consumers and producers, and expanded the state's role in economic production. These policies led to chronic macroeconomic instability in the 1980's. Since 1992, the government of President Sixto Duran-Ballen has sought to stabilize the economy, modernize the state, and expand the role of the free market. While the macroeconomic program has been relatively successful, the economy suffered a series of shocks during 1995 and the government has had difficulty implementing the structural reforms required to improve the investment climate and prospects for long-term growth.

Economic stabilization measures, including large fuel and public utility price hikes, had, by 1994, eliminated Ecuador's public sector budget deficit, lowered chronic inflation, slowed the depreciation of the currency, and built up the country's foreign currency reserves. The public sector fiscal outlook was also helped by the elimination of subsidized credit from the Central Bank, partial unification of the government budget, introduction of domestic fuel pricing based on world market factors, and laws to reform the tax and customs systems.

In January 1995, fighting broke out between Ecuador and Peru in a remote jungle area along their border. The month-long war resulted in a significant shock to the financial system and a sharp increase in military spending. Nevertheless, the government has continued to maintain strict fiscal discipline. The consolidated public sector deficit for 1995 is expected to rise to 1.1 percent of GDP and return to balance in 1996. Public sector expenditures (including the state enterprises, but excluding the military's capital budget funded by a direct allocation of oil revenues) accounted for about 24 percent of GDP in 1994. Debt service is the largest area of government spending, followed by education and defense. Public investment for 1995 is esti-

mated at 6.4 percent of GDP and is set to rise to 6.8 percent of GDP in 1996. The government remains highly dependent on revenue from oil exports and domestic fuel sales, but is seeking to increase revenue from value-added and income taxes.

During 1994, increased production in the petroleum, banana, construction, and manufacturing sectors generated real economic growth of four percent, double the rate of 1993. Unfortunately, the long-awaited general economic recovery was delayed by the impact of the border conflict on the domestic economy, several months of electricity rationing beginning in August 1995, and the onset of a political crisis that led to the resignation of the vice president in October 1995. Although most observers expect growth to slow to less than 2.5 percent in 1995, the official projection is for growth of at least three percent in 1995 and up to four percent in 1996. Gross domestic product (at current prices) should reach nearly $18 billion in 1995, producing a GDP per capita of $1,560.

In 1994, Ecuador ran a $435 million merchandise trade surplus and a current account deficit of $807 million due to a services deficit of $1,387 million. Although 1995 exports are running about 25 percent above 1994 levels, increased military imports should reduce the trade surplus to around $300 million.

A major accomplishment of the Duran-Ballen administration has been the reduction of inflation from 60 percent in 1992 to 25.4 percent in 1994. Consumer prices are likely to rise by 21–23 percent in 1995. The government hopes to reduce inflation to 17–19 percent in 1996. After two and a half years of capital inflows and a rapid increase in the money supply, M2 growth in 1995 is expected to drop below 40 percent. The border conflict, the political crisis, and increasing expectations of a devaluation, combined with the government's willingness to tighten liquidity in order to protect both the exchange rate and its foreign reserves, have kept real interest rates on 90-day deposits at around 20 percent for much of 1995. With lending rates reaching 35 percent in real terms, the productive sector of the economy has come under increasing pressure and a growing proportion of loans are past-due. The Central Bank attempts to smooth out fluctuations in liquidity through weekly bond auctions and interventions in the secondary market, but no longer uses bank reserve requirements as a monetary tool. During periods of capital inflows, the government compensates for the inflationary effects of foreign exchange influx by increasing its sucre deposits at the Central Bank.

2. Exchange Rate Policies

In 1992, Ecuadorian monetary authorities carried out a substantial one-time devalution, liberalized exchange rate policy and embarked on a controlled float of the sucre. A high interest rate differential between Ecuador and the United States attracted substantial net capital inflows and kept the nominal depreciation of the sucre below the rate of inflation. The strong currency and earlier trade liberalization measures made imports more competitive and served as an anchor against inflation. Ecuadorian exporters, however, are increasingly caught between rising sucre costs and stagnant sucre earnings.

In December 1994, the monetary authorities introduced a pre-announced exchange rate band, with a projected annual devaluation rate of 12 percent. The band was adjusted in February 1995 due to the border conflict and again in October 1995 as the currency came under pressure due to the political crisis and fears of overvaluation. The devalution rate is now projected at 16.5 percent for 1996.

Foreign currency is readily available on the free market, trading at 2,943 sucres to the dollar in mid-January 1996. There are no restrictions on the movement of foreign currencies into or out of Ecuador. The state oil company and other public entities are required to exchange dollars with the Central Bank at a less favorable rate than obtainable on the free market. During 1995, however, the official spread was reduced from 11 percent to 2 percent below the free market rate. By the end of October 1995, foreign exchange reserves had risen to $1.63 billion, enough to cover imports for four months. Renewed payment of debt service in 1995 has been offset by increased inflows of multilateral development funds.

3. Structural Policies

The Duran-Ballen administration has enjoyed only partial success with a structural reform program designed to promote investment and economic growth. Progress was made on budgetary reform, reduction of public employment levels, and elimination of unnecessary and market-distorting regulations. With a few exceptions for pharmaceuticals, some foodstuffs, and fuels, all prices are now set by the free market. New laws have estabished a basis for the development of equity capital markets, modern regulation of financial institutions, and improvement in the security of agricultural land tenure for both peasants and agrobusiness. In most cases, however, implementation has lagged behind legislation.

The 1993 state modernization law allowed private sector participation in "strategic sectors" of the economy, including petroleum, electricity, and telecommunications, but only on a concession basis. The National Modernization Council (CONAM) has sought to promote privatization and the state development banks have sold much of their equity stakes in commercial enterprises to the private sector. The armed forces have expressed interest in selling some shares in military-owned companies to private sector partners. In August 1995, CONAM completed the sale of Ecuatoriana, the bankrupt state airline, and Congress enacted legislation to sell 35 percent of the shares in the state telephone company, EMETEL. In spite of the severe electricity shortage, Congress has yet to pass a law to encourage privatization of the electric utility.

The government's plan to contract with a private consortium to construct and manage a second oil pipeline across the Andes faces political opposition. Tentative steps have been taken toward granting private concessions for public works, the civil registry, airports, ports and customs administration, and postal and railroad services. There is a general recognition of the need for major reform of public education and the social security system's troubled pension and health systems, but the government faces opposition from public sector unions.

Investment liberalization measures in 1991 and 1993 provided foreign investors with full national treatment and eliminated prior authorization requirements for investment in most industries, including finance and the media. Specific restrictions, most applicable to Ecuadorian as well as foreign investors, remain for petroleum, mining, electricity, telecommunications, and fishing investments. A bilateral investment treaty 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 imports and sales 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.

4. Debt Management Policies

In February 1995, Ecuador and its commercial creditors exchanged financial instruments to complete a comprehensive restructuring of its $7.1 billion external commercial bank debt and associated arrears. Under the agreement, creditors exchanged existing instruments for new bonds carrying a 45 percent discount or for par bonds with fixed interest rates varying from 3 to 5 percent. The government spent about $540 million, using multilateral bank financing, to purchase collateral for debt principal and interest. Service on the commercial debt should average about 1.7 percent of GDP through the year 2000, but will rise thereafter unless the government takes steps to retire some of its debt stock.

Ecuador has concluded bilateral rescheduling agreements with most of its official creditors under a 1994 Paris Club agreement covering $304 million in pre-1983 obligations that fell due in 1993 and 1994. However, the financial demands of the border conflict and the commercial bank debt restructuring has resulted in some short-term arrearages on bilateral debt payments. In 1994, Ecuador completed negotiations on a major structural adjustment loan with the World Bank. In November 1995, the government announced that it was negotiating with the IMF to replace its March 1994 stand-by arrangement with a less strict IMF monitored program.

At the end of the first half of 1995, Ecuador's external public debt was about $12.7 billion, down $776 million from 1994. Total public and private debt service owed in 1994 amounted to 69 percent of goods and services exports and 19 percent of GDP. Settlement of the commercial bank debt issue was a major priority for the Duran-Ballen administration and its resolution has improved Ecuador's creditworthiness and attractiveness to investors.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990's, resulting in a reduction of tariffs and tariff dispersion, elimination of most non-tariff surcharges, and enactment of an in-bond processing industry (maquila) law. The Duran-Ballen administration continued the move towards open trade by concluding bilateral free trade agreements with its Andean Pact partners Colombia, Bolivia, and Venezuela. After two years of negotiations with its major trading partners, Ecuador signed its accession to the World Trade Organization (WTO) in September 1995, and became a WTO member on January 30, 1996.

Since 1991, duties and fees for most imports into Ecuador fall in the 5 to 20 percent range. Ecuador joined with Colombia and Venezuela to establish an Andean

common external tariff on February 1, 1995. Special exemptions allow Ecuador to continue to charge lower rates for about half of the items on the common tariff schedule. Andean Pact price bands that have resulted in highly effective tariffs for a variety of agricultural products are scheduled to be phased out.

Customs procedures can be difficult, but are not normally used to discriminate against U.S. products. An ongoing customs reform is designed to reduce corruption and improve efficiency in the customs service, thereby eliminating a major constraint on trade. The government has phased out its policy of setting minimum prices for assessing customs duties on certain imports, and has promised not to use sanitary requirements for imported foods and other consumption goods to block the entry of some imports from the United States. Import bans are in effect for used clothing, used cars, and used tires, but are scheduled to be eliminated in 1996. All importers must obtain a prior import license from the Central Bank, obtainable through private banks. Licenses are usually made available for all goods.

A 1976 law 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 of a bank-issued guarantee to ensure execution of the contract.

6. Export Subsidies Policies

Ecuador does not have any explicit export subsidy programs. The government has terminated a temporary program to compensate banana and shrimp exporters for increases in fuel costs.

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 decisions provide 20-year patent terms (except for some pharmaceuticals), protection for plant varieties, and control of parallel imports. Ecuador's implementing regulations provide transitional or pipeline protection for patents registered during 1994.

Ecuador and the U.S. signed a bilateral Intellectual Property Rights Agreement (IPRA) in October 1993 that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs, and trade secrets. However, the Ecuadorian Congress has not ratified the IPRA or enacted legislation to harmonize local law with the agreement's requirements.

Enforcement of intellectual property rights remains a problem for Ecuador. Copyright infringement occurs and there is widespread local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks is a problem since the government lacks the resources to monitor and control such registrations. If a recent court decision is upheld, foreign trademark owners may be prevented from terminating license arrangements with Ecuadorian companies. Some local pharmaceutical companies produce or import patented drugs without licenses and have sought to block improvements in IPR protection.

8. Worker Rights

a. *The Right of Association.*—Under the Ecuadorian constitution and labor code, most workers in the private and parastatal sectors enjoy the right to form trade unions. The revised labor code of November 1991 raised the number of workers required for an establishment to be unionized to 30. Less than 14 percent of the labor force, mostly skilled workers in parastatal or medium to large sized industries, is organized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. 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. *The Right to Organize and Bargain Collectively.*—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, requires that employers provide space for union activities, and 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. Despite reforms in 1991, employers consider the labor code to be unfavorable to their interests.

The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is prohibited by both the constitution and the labor code and is not practiced.

d. *Minimum Age for Employment of Children.*—Persons yournger 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, two weeks 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 $140. 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. *Rights in Sectors With U.S. Investment.*—The economic sectors with U.S. investment include petroleum, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large, multinational companies which abide by the Ecuadorian labor code. In 1995 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		546
Total Manufacturing		129
Food & Kindred Products	55	
Chemicals and Allied Products	−6	
Metals, Primary & Fabricated	19	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	35	
Wholesale Trade		40
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		728

[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 U.S. dollars unless otherwise noted]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 Prices)[2]	5,016.4	5,304.8	5,596
Real GDP Growth (percent)	7.4	6.0	5.5
GDP (at current prices)	6,956.6	8,144.4	9,528.0
GDP by Sector:			
Agriculture	969.0	1,129.2	1,330
Energy, mines and water	97.8	122.3	98
Manufacturing	1,557.3	1,805.6	2,010
Construction	303.7	373.6	340
Rents	626.4	700.0	854
Financial Services	173.0	212.4	240
Other Services[3]	2,093.7	2,181.0	2,600
Public Administration	434.1	480.0	532
Net Exports of Goods and Services[4]	−1,126	−1,303	−1,340
Nominal per capita GDP (US$)	1,345.6	1,542.5	1,763
Labor Force (000s)[5]	965	1,041	1,124
Unemployment Rate (percent)[5]	7.8	7.5	8.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	28.3	22.0	19.5
Base Interest Rate[6]	16–19	16–19	16–21
Personal Saving Rate (deposits)	6–8	6–8	6–8
GDP Deflator	14.9	8.8	9.8
Consumer Price Index	12.0	8.9	11–13
Exchange Rate (colon/US$)	8.70	8.72	8.75
Balance of Payments and Trade:			
Total Exports FOB[4]	1,032	1,249	1,680
Exports to U.S.	340	606	800
Total Imports CIF	2,145	2,574	3,340
Imports from U.S.	870	1,234	1,620
Aid from U.S.[7]	161	215	70
Aid from Other Countries	44	30	77
External Debt	2,012	2,245	2,200
Debt Service Payments (paid)	293	345	204
Gold and Forex Reserves	645	716	936
Trade Balance	−1,113	−1,325	−1,660
Balance with U.S.	−530	−627	−820

[1] 1995 figures are Central Bank projections (as of Nov. 95).
[2] GDP at market cost; Central Bank exchange rate as shown elsewhere.
[3] Other services includes: Commerce, transport, storage, communications, restaurants and hotels.
[4] Includes maquila processing.
[5] Ministry of Planning household survey.
[6] Loan rate.
[7] Excludes military aid.

1. General Policy Framework

With increased output in the agricultural, transport, and manufacturing sectors, the Salvadoran economy stayed on a steady growth course in 1995. Real GDP growth was estimated at 5.5 percent, moderately slower than the 6 percent achieved in 1994. Inflation for the year was estimated to be in the 11 to 13 percent range, an increase over 1994's 8.9 percent rate and substantially higher than the 6–8 percent forecast. The unexpected increases were attributed to a record 2.6 percent spike in prices in July, stemming from a value added tax (VAT) tax hike and public sector utilities rate increases, and aggravated by the impact of heavy rains on agricultural prices.

El Salvador's balance of payments continued to show a net surplus. Exports in 1995 grew slightly faster than imports, narrowing El Salvador's almost two-to-one trade deficit. As in the previous year, the large trade deficit (1.6 billion dollars) was

offset by foreign aid and family remittances. Private foreign capital flowed in at record levels. Remittances remain the second most important source of foreign exchange after exports and a major factor in El Salvador's macroeconomic stability. The Central American Common Market continued its dynamic reactivation process, now with most regional commerce duty-free.

In February 1995, President Armando Calderon Sol announced a far-reaching economic reform plan that included tariff cuts, privatization of many of the remaining state-owned enterprises, modernization of the state, and a fixed exchange rate. The package was aimed at reducing internal costs, making El Salvador more attractive to foreign investment, and positioning the country for further regional economic integration.

Most elements of the plan have not moved ahead as fast as the President originally proposed. Sale of the last of the state-owned banks was begun in 1995, but privatization legislation for the electrical and telecommunications sectors has been delayed. On the plus side, the government has restructured some ministries, and has received legislative approval to lay off 15,000 employees as part of the modernization effort. Tariffs on capital goods were lowered to one percent on April 1, 1995 and all tariffs were scheduled to come down further on January 1, 1996. President Calderon Sol has indicated that he expects to implement a tariff regime between zero and six percent for all traded goods by 1999.

In mid-1995, the government of El Salvador flirted briefly with the idea of switching to a dollar economy, going a step further than the fixed exchange rate proposed by the President in February. Although the monetary authorities are still interested, and have taken a number of administrative steps to encourage use of dollars in the economy, no political decision has been made. 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. Controls on interest rates have been removed, allowing rates to return to real positive levels. A generally disciplined monetary policy has reduced inflation from 19 percent in 1992 to an estimated 11.5 percent in 1995.

Fiscal policy has been the biggest challenge for the Salvadoran government. The peace accords signed between the government and the Farabundo Marti Liberation Movement (FMLN) in January 1992 committed the government to heavy expenditures for transition programs and social services. Although international aid has made up some of the difference, the government has focussed on improving the collection of its current revenues. A 10 percent value-added tax (VAT), implemented in September 1992, was raised to 13 percent in July 1995. The VAT is estimated to have contributed 40 percent of total tax revenues in 1995; collections in the first six months of the year were up 30 percent over 1994, thanks to improved collection techniques. In 1996, VAT is projected to bring in 55 percent of total tax revenue.

El Salvador became a member of the World Trade Organization on May 7, 1995 and expects to implement the full range of its WTO commitments on or ahead of schedule.

2. Exchange Rate Policies

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. The exchange rate on January 12, 1996 was colons 8.75 to $1.00. 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 around $85 million, with the total estimated at more than $1 billion for 1995.

3. Structural Policies

U.S. exports to El Salvador have increased over 60 percent since 1991, accounting for almost 50 percent of El Salvador's total imports in 1995. The key policy change driving this trend was the government's decision to lower radically 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 $936 million as of December 1995, up 30 percent over 1994. Also contributing to the surge in imports is the robust rate of economic growth and a post-war construction boom. Over 75 percent of imports in 1995 were in the categories of capital and intermediate goods. The government of El Salvador has an open procurement policy in practice and U.S. companies compete actively for contracts.

Prices, with the exception of bus fares and utility rates, are set by the market. The Legislative Assembly is currently considering legislation to set up a regulatory commission to set electricity rates. A similar commission will likely be created to set telephone and water rates. The 13 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. At the end of 1994, the government replaced a price band mechanism, introduced in 1990 to regulate the tariffs on basic grains, with a fixed tariff of 20 percent ad valorem.

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 1995, El Salvador received $147 million in external aid, from multilateral institutions, bilateral sources, and private sources. External debt went down from $2.245 billion in 1994 to $2.2 billion in 1995 and debt service fell correspondingly to $204 million. 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 significant loans are a second structural adjustment loan from the World Bank, for $52.5 million, another World Bank loan of $40 million for agricultural reform, a $20 million loan from the Central American Bank for Economic Integration to be used to repair roads and a $60 million Inter-American Development Bank (IDB) 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. Most U.S. goods face tariffs from one to 20 percent with rates expected to fall further by 1999. While higher duties are applied to automobiles, alcoholic beverages, textiles and some luxury items, the Salvadoran government plans to roll these excepted products into its general tariff schedule as it implements the 1996–99 reductions.

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 have not enforced the Spanish-language 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 virtually all sectors of the economy. The foreign investment law allows unlimited remittance of net profits for most types of business and manufacturing, and up to 50 percent for commercial or service companies. Both electricity generation and distribution and telecommunications remain in the hands of government monopolies. A bill being considered by the Legislative Assembly would open up electrical generation to private sector investment. One U.S. power company has already invested in a local generating station. The government has also allowed some private sector involvement in telecommunications, improving the prospects of U.S. exports in these sectors.

6. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It offers a six percent rebate to exporters of non-traditional goods based on the FOB value of the export, but exporters have found it very difficult to collect. 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.

Interest rates paid by farmers, manufacturers, and businessmen in general for production loans are set by the market (currently from 19 to 22 percent). The Agricultural Development Bank (BFA), which serves predominantly small basic grains producers, and the Multilateral Investment Bank, which was formed out of a Central Reserve Bank window to finance private sector projects, both charge commercial rates for loans. In 1993, as result of the Peace Accords, the government approved a special fund to reschedule the debts of farmers, manufacturers, and busi-

nessmen who could prove that their financial troubles were caused directly by the conflict. The rescheduling allowed generous terms to repay their debts (8 percent interest rate, 4 years grace, and 20 years term). 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.

7. Protection of U.S. Intellectual Property

El Salvador's new law protecting intellectual property rights took effect in October 1994. 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 1994 law addresses several key areas of weakness. Patent terms are lengthened to 20 years and the definition of patentability is broad. Compulsory licensing applies only in cases of national emergency. Computer software is also protected, as are trade secrets. Trademarks, however, are still regulated by the Central American Convention for the Protection of Industrial Property. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. In November 1994, El Salvador signed an amended version of the convention, which, among other things, would address this issue. The revised convention will take effect upon ratification by three of the participating Central American governments.

In addition to problems with enforcement, the Salvadoran government suffers from antiquated and disorganized bureaucratic procedures for registering patents and trademarks that have caused delays of up to five years in filing registrations and adjudicating oppositions. The National Registry office was reorganized in late 1995 in an effort to address some of these problems.

The government of El Salvador is currently engaged in negotiations with the U.S. on a bilateral IPR agreement. El Salvador is a signatory to the Geneva phonograms, Paris industrial property, and Berne copyright conventions. It does not belong to the International Convention for the Protection of New Varieties of Plants (UPOV) or the Washington Satellite Convention.

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 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. While the labor code reforms attempt to address this problem, unions claim the practice continues.

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 for Employment in Children.*—The Salvadoran Constitution prohibits the employment of children under the age of 14. Exceptions may be made only where such employment is absolutely indispensable to the sustenance 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 10 percent. The new rate for industrial and service workers was 38.50 colones per day (about $4.40); agro-industrial employees must be paid 28.60 colones (about $3.30), 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. A proposed law would allow the government to remove the import/export privileges of maquilas that broke labor laws.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		53
Total Manufacturing		(1)
Food & Kindred Products	5	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		2
Banking		(1)
Finance/Insurance/Real Estate		4
Services		3
Other Industries		(1)
TOTAL ALL INDUSTRIES		137

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 Prices)[2 3]	8,371	9,373	9,662
Real GDP Growth (percent)	3.9	4.0	4.0
GDP (at current prices)[2]	10,216	11,773	13,553
GDP by Sector:			
Agriculture	2,788	3,150	3,625
Energy and Water	326	387	442
Manufacturing	1,630	1,846	2,122
Construction	247	271	309
Rents	540	620	707
Financial Services	506	594	678
Other Services	674	762	855
Government, Health and Education	843	981	1,105
Transportation	944	1,110	1,252
Commerce	2,709	3,137	3,566
Mining	34	52	74
Net Exports of Goods and Services	−1025	−1137	−1182
Real Per Capita GDP (USD)	835	908	910

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Labor Force (000s)	2,897	2,994	3,081
Unemployment Rate (percent)[4]	5.5	5.2	5.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.0	19.1	13.0
Base Interest Rates:			
Commercial Banks (Deposits)	12.8	9.7	7.1
Commercial Banks (Loans)	24.7	22.9	20.9
Personal Saving Rate	N/A	N/A	N/A
Retail Inflation	11.6	11.5	10.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	589	657	720
Exchange Rate (quetzal/US$—annual average)			
Official	5.66	5.77	5.80
Balance of Payments and Trade:[5]			
Total Exports FOB[5]	1,356	1,644	1,983
Exports to U.S.	501	479	636
Total Imports CIF[5]	2,381	2,781	3,165
Imports from U.S.	1,172	1,139	1,364
Aid from U.S.	56	57	33
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	2,086	2,160	2,142
Debt Service Payments (Paid)	585	398	350
Gold and Forex Reserves	736	796	600
Trade Balance[5]	−1,025	−1,137	−1,182
Balance with U.S.[5]	−671	−660	−729

[1] 1995 estimates are based on data through October 1995.
[2] Calculated using an exchange rate of Q 5.8 to USD 1.
[3] Derived by the Embassy using Guatemalan data.
[4] Does not reflect underemployment estimated at 50 percent.
[5] Merchandise Trade data from Guatemalan Customs.

1. General Policy Framework

Guatemala is a generally open economy with the largest GDP in Central America. For the last five years, real GDP growth has averaged about 4 percent and population growth about 2.9 percent annually. Infrastructure deficiencies, particularly in education, electricity and transportation, constrain more rapid development. During the same period the government has liberalized and modernized the financial system, decontrolled petroleum prices and revised the commercial code. The government also began discussion of privatizing and/or deregulating the remaining state monopolies in telecommunications, electricity and rail transport. Further action on these proposals depends on decisions by the new government elected in January 1996. Guatemala joined the World Trade Organization in August, 1995. Corn, rice, and apples are the only items for which government policies restrict U.S. exports.

In elections in November of 1995, the National Advancement Party (PAN) won a majority in the unicameral national legislature, and in a run-off election on January 7, 1996, Alvaro Arzu, the PAN candidate and former mayor of Guatemala City, was elected president. He was sworn-in on January 14 and named a significant number of business leaders to economic portfolios. Early indications are that the government plans to pursue further liberalization and emphasize infrastructure development. A major challenge for the new government, on which it has indicated plans to move rapidly, will be to complete the peace process bringing to an end the 35-year long civil war. Four accords have been signed and a fifth with important economic implications is under negotiation.

Agriculture and commerce each contribute about 25 percent of GDP, manufacturing adds 15 percent and government activity 12 percent. The agricultural sector, concentrated around coffee (the biggest foreign-exchange earner), sugar, bananas, and cardamom, accounts for over two-thirds of all exports and over half of all employment. Exports to other Central American countries, principally of processed food, are expanding, as are "non-traditional" exports to other markets, including fresh fruit and vegetables and garment assembly. Tourism is Guatemala's second

largest earner of foreign exchange. Remittances estimated to be in excess of $500 million per year come primarily from relatives living in the U.S.

Tax collections provide the equivalent of less than eight percent of GDP, forcing successive governments to control stringently expenditures in order to limit the budget deficit. Since 1994, the Central Bank (Bank of Guatemala) has been prohibited from financing the deficit, forcing the government to issue treasury bonds, most of which have been short term. On the strength of tight monetary policy, inflation has been kept in check since 1991 and was estimated to have been under 10 percent in 1995.

Guatemala became a member of the World Trade Organization on July 21, 1995.

2.Exchange Rate Policies

Guatemala has an open, relatively undistorted exchange regime. The Bank of Guatemala intervenes only infrequently to dampen speculation. There are no legal or other constraints on remittances or other capital flows. A number of local banks offer dollar denominated accounts in which the funds are held offshore. Legislation is pending to liberalize further the exchange regime to permit dollar accounts to be maintained locally.

The quetzal-dollar exchange rate was relatively stable through 1994 and until September 1995, resulting in a real appreciation of the quetzal of nearly 20 percent since the end of 1991. In the last third of 1995, the rate declined from 5.7 quetzals to the dollar to 6.2 before returning to about 6.0 to the dollar. This is consistent with the pattern for the past several years. The quetzal tends to strengthen during the autumn as export earnings from coffee and sugar begin to flow into the country. The exchange rate on January 12, 1996 was quetzals 6.0297 to 1 USD.

3.Structural Policies

In 1995, government receipts rose by more than 30 percent, largely from increased collections of customs duties and the value added tax. Nevertheless, the tax base remains extremely narrow, severely constraining needed public sector spending. Over the long term, improved tax collection, in the face of widespread evasion, is needed if the government is to be able to invest in education and infrastructure. In January 1996, the value added tax increased from 7 to 10 percent, with the additional income earmarked for peace accord-related programs.

Several attempts to increase electric rates to cover long-term marginal costs, as urged by the international financial institutions, have been blocked by court decisions on the grounds that that the proposed increases were inadequately justified and "violated consumers' human rights." The Government continues to seek a solution that would enable it to raise rates.

Sugar is virtually the only product on which Guatemala maintains price controls. Direct government control of production is almost nonexistent.

4. Debt Management Policies

At the end of 1995, Guatemala's official foreign debt was equivalent to about 15 percent of GDP and the debt service ratio about 12 percent. This represents a significant improvement from the situation in 1990, when the debt was equivalent to 35 percent of GDP. During this period the Bank of Guatemala's foreign debt was reduced from nearly $800 million to under $400 million. Other public sector foreign debt climbed from $1.6 billion to $1.75 billion and continues to increase.

The country's most significant foreign arrearage remains with Spain, for the construction of a pulp mill which has never operated. The inability to resolve the status of this debt has blocked full compliance with Paris Club rescheduling agreements. At the beginning of 1995 Guatemala had an arrearage of $4.3 million with the U.S. Although Guatemala previously had shadow programs, at present the only agreement with the International Monetary Fund (IMF) is for monitoring of self-imposed targets. As of mid-November 1995, net foreign exchange reserves were about $600 million, significantly below the target of $800 million. In November staff recommend to the Executive Board of the World Bank a waiver of the few remaining conditions for release of the third and final tranche of an Economic Modernization Loan. Release of the $48 million has been pending for more than a year as the government sought to meet conditions related to pricing of electricity (see previous section).

Domestic interest rates remain at over 20 percent, as the Bank of Guatemala seeks to control liquidity and prices in the face of heavy borrowing by the central government. The rates have also attracted significant short term foreign capital, with attendant risks. Interest payments on the debt, both foreign and domestic, consumed just over 10 percent of the budget in 1995.

5.Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which ranges from five to 20 percent for almost all agricultural and industrial goods. On December 1, 1995 the tariff on raw materials and many capital goods was reduced to one percent. Imports are not generally subject to non-tariff trade barriers, although possible arbitrary customs valuation and excessive bureaucracy can sometimes create delays and complications.

Guatemala has only partially complied with its WTO commitments, failing to eliminate import licenses for apples and pears or to expand the tariff rate quota on poultry. The country's WTO tariff commitment is limited to ceiling binding at rates substantially higher than those currently applied. The Government recently allowed the price bands for basic grains and rice to expire.

Processed foods are required to be labeled in the Spanish language. While enforcement of this regulation has been virtually non-existant, compliance is increasing. Full enforcement could have a significant impact on U.S. exports.

Sanitary licenses are required for all imports of animal origin. Inspection of the processing plant in the country of origin, at the importers expense, is required for the license. Implementation of this requirement has been uneven.

Some restrictions remain on foreign investment. Sub-surface minerals, petroleum, and other resources are considered State property. Concessions are typically granted in the form of production-sharing contracts. The solicitation and contracting process for energy concessions tends to be protracted and non-transparent. Some foreign oil companies assert that the Guatemalan royalty scale is not competitive. Restrictions on housing construction are so onerous they virtually exclude foreign participation.

By law, radio and television stations can be operated only by Guatemalan citizens or by corporations which are at least 75 percent Guatemalan-owned. Foreigners can own no more than 30 percent of "small mining" or forestry companies. Ground transportation is limited to companies with at least 60 percent Guatemalan ownership. Licensing requirements for fishing operations are enforced in such a way as to ensure at least minority Guatemalan participation. Only airlines with at least 51 percent Guatemalan ownership can provide domestic service.

Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the "Big Six" U.S. accounting firms are represented through one of these methods.

6. Export Subsidies Policy

There are no export subsidies.

7.Protection of U.S. Intellectual Property

Protection provided intellectual property is inadequate. Penalties are insufficient, enforcement is weak and a poorly trained judiciary is slow to provide injunctive relief. 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 limited to 15 years (10 years for the production of food, beverages, medicines and agrochemicals), and subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally. Legislation is pending before the Congress to address these issues and bring Guatemalan law into line with international standards.

A 1991 Generalized System of Preferences (GSP) petition against Guatemala filed by the Motion Picture Export Association of America (MPEAA) was withdrawn in 1994 following passage in 1992 of an anti-piracy law and a significant reduction in illegal retransmission of signals. However, in October 1995, the MPEAA unilaterally voided its agreements with local cable companies, alleging that they had failed to comply with their obligations. Video piracy apparently has diminished. Legislation permitting the government to submit an instrument of accession to the Berne Convention on copyright was ratified, published, and signed in 1995. Legislation is pending which would allow accession to the Paris Convention on industrial property.

The right to copy, publish and distribute is clearly protected and the criminal code was modified in August 1995 to include prison sentences of 4 to 6 years and fines ranging from 50,000 to 100,000 quetzals (8,400 to 16,800 dollars) for copyright violations. Control over leasing or rental of protected works is less clear. Despite mem-

bership in the Rome and Geneva Conventions, Guatemala does not generally protect sound recordings.

The Central American Convention for the Protection of Industrial Property (CACPIP) is the legal basis for protection of trademarks in Guatemala. It is currently under revision to bring it more into line with emerging international standards and to simplify the registration process. Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. A firm wishing to market in Guatemala whose trademark has been registered by another party must either buy-out that party or pay a royalty. Legislation to improve trademark protection is pending.

8. Worker Rights

a. *The Right of Association.*—The right of association is guaranteed by the Constitution. Just under eight percent of the labor force is unionized; there are almost 1000 different unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union, based on 1992 changes to the labor code.

b. *The Right to Organize and Bargain Collectively.*—The Labor Code allows collective bargaining. Anti-union practices are forbidden, including discharging workers for attempting to organize a union. However, despite a major increase in labor inspectors and inspections, enforcement of labor laws depends on a badly overloaded and inefficient labor court system. The labor movement remains fractious, and widespread historical leeriness of unions as well as a high rate of unemployment and underemployment combine to make organizing and collective bargaining difficult.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor. However, some human rights activists charge that, although participation in civil defense patrols is voluntary by law, coercion is sometimes used to recruit and keep members in patrols, especially in conflictive areas.

d. *Minimum Age for Employment of Children.*—By law, children under the age of 14 may work only with written permission of their parents, certified by the Ministry of Labor. However, a total of perhaps 100,000 children under 14 work in both the formal sector, including agriculture, and the informal sector. The Ministry of Labor has initiated a program to educate minors about their rights as workers.

e. *Acceptable Conditions of Work.*—The Constitution provides for a 44 hour work week; the average number of hours worked in 1994 was close to 45 hours per week. Occupational safety and health regulations exist but often are not strictly enforced. A labor-management committee is discussing a new minimum wage. Not all workers are paid the legally-mandated minimum wage, particularly in remote rural areas.

f. *Rights in Sectors With U.S. Investment.*—Generally, international corporations operating in Guatemala appear to follow the labor code and respect workers rights. The exception is some maquilas (garment assembly factories), primarily those owned and operated by Asian investors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		37
Total Manufacturing		88
Food & Kindred Products	30	
Chemicals and Allied Products	27	
Metals, Primary & Fabricated	−4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	35	
Wholesale Trade		−7
Banking		2
Finance/Insurance/Real Estate		8
Services		(1)
Other Industries		4

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	133

[1] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

HAITI

Key Economic Indicators

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

	1992/93	1993/94	1994/95[1]
Income, Production and Employment:			
Real GDP (1985 Prices)[2]	626.4	514.4	525.8
Real GDP Growth (percent)[3]	−2.6	−10.6	4.5
GDP (at current prices)[2]	1472.2	1640.8	2098.3
GDP by Sector (percent):			
Agriculture	32.6	35.7	N/A
Energy, Water	N/A	N/A	N/A
Forestry, Fishing, Mining	7.2	8.0	N/A
Manufacturing	12.5	9.3	N/A
Construction	3.5	2.9	N/A
Utilities, Transport, Communications	3.0	2.1	N/A
Restaurants, Hotels	0.3	0.2	N/A
Financial Institutions	0.2	0.1	N/A
Housing	6.6	6.7	N/A
Commerce	10.7	9.0	N/A
Government	16.6	19.5	N/A
Other Services	6.9	6.4	N/A
Real per capita GDP (US$, '85 bps)	94	77	78
Labor Force (000s)	3,629	3,800	4,000
Unemployment (percent)	80	80	80
Money and Prices (annual percentage growth):			
Money Supply (M2)	35.1	11.8	9.6
Base Interest Rate[4]	15.6	22.0	15.5
Personal Savings Rate	−5.2	−10.1	−8.1
Retail Inflation	N/A	N/A	N/A
Wholesale Inflation	N/A	N/A	N/A
CPI (end of period—percent change)	26.9	52.1	24.0
Exchange Rate (gourde/US$)	12.43	14.50	14.44
Balance of Payments and Trade:			
Total Exports FOB[5]	81.6	57.4	90.5
Exports to U.S.[6]	151.9	84.3	111.9
Total Imports CIF[5]	346.2	188.3	406.0
Imports from U.S.[6]	247.1	133.8	543.9
Aid from U.S.	19.5	20.1	127.7
Aid from Other Countries	80.5	93.2	429.7
External Public Debt	862.9	865.8	801.8
Debt Service Payments (paid)	37.7	36.0	217.6
Gold and Foreign Exchange Reserves (net)	−58.5	−95.0	168.7
Trade Balance[5]	−264.6	−130.9	−315.5
Trade Balance with U.S.[5]	−95.2	−49.5	−432.0

[1] 1995 Figures are all estimates based on available monthly data in October, 1995.
[2] GDP at factor cost.

[3]Percentage changes calculated in local currency.
[4]Figures are actual, average interest rates, not changes in them
[5]Net merchandise trade.
[6]U.S. Department of Commerce data on bilateral trade; gross customs value. Figures include a substantial amount of U.S. goods exported for processing and then re-imported under the Caribbean Basin Initiative.

1. General Policy Framework

Haiti has a predominantly agriculture-based, market-oriented economy. Historically, Haiti's economic performance has been strongly influenced by the United States, its principal trading partner and largest bilateral aid contributor. Following the restoration of president Jean-Bertrand Aristide on October 15, 1994, Haiti embarked on an economic program based on macroeconomic stabilization, trade liberalization, privatization and decentralization. Since December, 1994, the Haitian government has slashed tariffs to a range of zero to fifteen percent, undertaken an aggressive tax collection effort to increase public revenue, signed an IMF standby agreement, and contracted with the International Financial Corporation (IFC) for a privatization study. Although the Haitian government has said it is committed to maintaining this program, strong domestic pressure to reduce inflation, create jobs, increase wages and provide basic services threatens to divert the government from its course.

Haiti's medium term macroeconomic goals call for 4.5 percent real GDP growth in FY 1994/95, reaching 6 percent growth in 1996/97, a growth rate the government believes it can sustain for several years thereafter. FY 1995's annual inflation rate was 24 percent, above the government's 15 percent target, but less than half the rate of a year ago. Inflation is projected to decline progressively until reaching five percent in FY 1997/98. The unprecedented amount of aid ($1.2 billion) pledged by the international community for Haiti's social and economic reconstruction will give the Haitian government a unique opportunity to fund and implement systemic changes that will permit sustained fiscal reform. Strong pressure for increased expenditures for wage increases, rehabilitation of political and economic infrastructures, and social programs will heighten the need to maximize revenue collection.

Reserve requirements (which currently stand at 48 percent for primary reserves) are the Central Bank's primary monetary policy tool. They have been used to control the money supply and to assist in the financing of the public sector debt. The bank has a rediscount facility and a lending facility for the commercial banks, but neither of these has been used extensively in recent years, partly because bank liquidity has been plentiful and an active inter-bank market exists. Use of the rediscount facility has been limited by a lack of eligible paper to rediscount, and use of the lending facility has been limited by the relatively high interest rate charged (usually the legal maximum—until June 29, 1995, 22 percent), and low legal limits (related to bank capital) on the amounts commercial banks can borrow.

Continued deficit spending in the fourth quarter of FY 1995 prompted a sharp depreciation of Haiti's currency, the gourde. The Central Bank raised reserve requirements in an effort to support the currency, but in doing so drained most of the liquidity from the banking system.

Haiti's fiscal record is weak. Tax collection has been historically quite poor and fiscal restraint is equally lacking. Government deficits, caused by a bloated public sector, central government support for inefficient state-owned enterprises and significant unbudgeted expenses, have been financed through central bank credit and foreign borrowing or grants.

2. Exchange Rate Policies

For decades Haiti's currency, the gourde, was officially tied to the U.S dollar at the rate of five to one. A parallel market for foreign exchange emerged in the early 1980s, but for several years the official exchange rate continued to hold for some transactions. On September 16, 1991, the Central Bank ceased all operations at the official rate, thereby unifying the exchange system at the free floating market rate (7.66 gourdes to $1 at the time). The only vestige of fixed exchange rate policy was the practice of valuing imports at the rate of 6.5 gourdes per dollar instead of at the market rate. As the exchange rate soared during the three-year de-facto rule (peaking at 23.12 to $1 in August 1994), imports became increasingly undervalued. As of January 12, 1996, the exchange rate was gourdes 15.50 to 1 USD. As part of the government's economic rationalization program, market valuation of imports went into effect April 2, 1995.

Haiti has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. In April 1995, the Central Bank abolished the 40 percent surrender requirement on export earnings.

3. Structural Policies

Haiti has an essentially market-oriented economy. The government's role in the economy has been sharply reduced since 1986/87. In the few cases where the government has attempted to control prices or supplies, its efforts were frequently undercut by contraband or overwhelmed by the sheer number of small retailers. Even when the government set prices for flour and cement coming from the two large parastatals, consumer prices were governed by supply and demand. Gasoline pump prices and utility rates, which are more effectively regulated, are probably the only exceptions to the rule. By law, gasoline pump prices are adjusted to reflect changes in world petroleum prices and exchange rate movement.

Consumer complaints over the high cost of living, supported by rising consumer prices since President Aristide's return, have led the Haitian government to intervene in the economy. The government has not fixed prices of essential products, but it has opened a number of "communitarian" stores where basic commodities are sold. In conjunction with the start of the school year in October, 1995, the government subsidized the first of three 10,000 mt rice shipments. The Haitian government cannot afford to sustain this or other subsidy programs. Still, popular pressure to address the high cost of living may lead the government to continue the rice subsidy, even if it means greater deficit spending.

Haiti's tax system is inefficient. Direct taxes represent only about 13 percent of receipts. Moreover, tax evasion is widespread and few tax payers are registered with the tax bureau (DGI, Direction Generale d'Impots). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has created a large taxpayers unit which will focus on identifying and collecting the tax liabilities of the 150 largest taxpayers in the Port au Prince area. It is estimated that this group represents over 80 percent of potential income tax revenue. Efforts are also being made to identify and register other taxpayers. In addition, the value added tax (TCA) has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). Collection still remains difficult, and the revenue bureau is frequently forced to physically collect payments.

4. Debt Management Policies

Following the 1991 coup which ousted President Aristide, Haiti suspended all payments on its foreign debt. When President Aristide was returned in October, 1994, Haiti's arrears with the International Financial Institutions (IFIs) totalled some $84 million. The international community made it an immediate priority to clear Haiti's arrears with the IFIs so that new lending could begin. The 1994/95 budget specifically allocated funds for resumption of debt service. The Ministry of Finance reports that 12 percent of the FY 1995 budget (616 million gourdes) went to service the debt.

In its August 1994 economic policy statement, the Aristide government committed itself to significant economic and structural reform. Haiti signed a Standby Agreement with the International Monetary Fund (IMF) in March 1995 and met its performance targets through June 1995. An overwhelming percentage (91 percent in FY 1995, 85 percent in FY 1996) of Haiti's debt is concessional loans to the IFIs. These loans typically have 10-year grace periods, a 40-year payback period and negative real interest rates. On May 30, 1995, the Paris Club agreed to reschedule all of Haiti's bi-lateral official debt to Paris Club members. Roughly two-thirds of this debt ($75 million) was forgiven under Naples terms. The balance was rescheduled over 26–40 years.

Popular opposition to "structural adjustment" in the summer of 1995 caused some slippage in the government's commitments to the IFIs. In October, lack of consensus on privatization and other structural reforms tied to loans from the IMF and World Bank thwarted a scheduled signing of the Structural Adjustment Credit (SAC) and the Enhanced Structural Adjustment Facility (ESAF), and prompted the resignation of Prime Minister Smarck Michel. At this writing, it is uncertain when Haiti will resume formal negotiations with the IFIs. Meanwhile, the delay in external support (upon which 40 percent of Haiti's FY 1996 budget depends) could inhibit Haiti's ability to meet its debt service obligations. Haiti's annual debt service is 720 million gourdes ($45 million), representing 50 percent of exports and two percent of GDP.

5. Significant Barriers to U.S. Exports

Haiti is actively working to facilitate foreign trade and investment. The government completed all remaining procedures and ratified the WTO agreement to become a WTO member in late 1995. With the lifting of all sanctions against Haiti, the sharp reduction in tariffs and the government's decision to remove all import licenses, there are no significant barriers to U.S. exports. The resumption of normal trade has created a tremendous demand for U.S. goods, and exports to Haiti are

soaring. The export of firearms and other weapons is controlled for foreign policy reasons. Haitian importers must obtain a license to purchase such goods from U.S. suppliers. Foreign companies are subject to an additional levy of 30 percent on profits as a final tax on deemed distributions to foreign shareholders whereas local firms are subject to only a 15 percent withholding tax on distributions. The Haitian government has stated its intention to remove this discriminatory withholding tax provision during the next session of parliament.

6. Export Subsidy Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

Infringement of intellectual property rights has not been a significant issue in Haiti. The economy produces a small variety of products, most of which are for export to the U.S. and other countries which do not tolerate open patent infringement. Most manufactured goods sold here are imported. The most obvious example of intellectual property rights infringement is the handful of video outlets where poor quality pirated videotapes outnumber legitimate products by a wide margin. Pirated music cassettes are also widely available and the outside walls of many schools are brightly painted with (generally poor) representations of licensed animated characters.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and judges' poor knowledge of commercial law dilute the effectiveness of this statutory protection. Moreover, injunctive relief is not available in Haiti, so the only way to force compliance (should it become necessary) is to jail the offender. Efforts to reform and improve the Haitian legal system, now being undertaken with the assistance of international advisors, may prevent more extensive abuse of intellectual property rights as Haiti's economic recovery progresses.

Haiti is a signatory to the Buenos Aires Convention of 1910 and the Paris Convention of 1883 with regard to patents, and to the Madrid Agreement with regard to trademarks, but is not a signatory to the Berne copyright convention.

8.Worker Rights

a. *The Right of Association.*—The constitution and the labor code guarantee the right of association. Workers, including those in the public sector, are specifically granted the legal right to join unions without prior government authorization. A union, which must have a minimum of ten members, is required to register with the Ministry of Social Affairs within 60 days of its establishment. Tripartite negotiations (labor, management and government), begun in 1986 to revise the labor code, concluded in May, 1993. The revised code, which has yet to be approved by the legislature, recognizes the right to strike but restricts the duration of certain types of strikes, as did the previous code. Under the new code, the Ministry of Social Affairs must recognize workers' right to strike in each case, before the strike is legal.

b. *The Right to Organize and Bargain Collectively.*—Trade union organizing activities are protected by the labor code, and those who interfere with this right may be fined. Still, collective bargaining has never been widespread in Haiti and was non-existent during the coup years. What union membership and organizing efforts existed prior to the coup were hurt by the ensuing economic embargo which resulted in large scale unemployment. At present, unions are focussing their efforts on job creation and civic education to build support for organized labor. Union leaders say they are pragmatic about their weak position and feel their energies should be directed at strengthening unions by creating jobs rather than pushing for benefits they lack the leverage to win.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Code prohibits forced or compulsory labor, but enforcement of these provisions is practically non-existent. Children from rural families are often sent to work as unpaid domestic labor for more affluent city dwellers. In theory, the children are to receive food, clothing, education and medical care in exchange for their services, though this is seldom the case. Still, we are unaware of any use of forced labor in the manufacturing or export sectors.

d. *Minimum Age for Employment of Children.*—The minimum age for factory employment is 15 years, but fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. Children frequently work in family agricultural enterprises, but their employment in commercial agriculture is almost nil because they lack the physical strength for heavy field work. Enforcement of the minimum age law is the responsibility of the Ministry of Social Affairs, though the Ministry lacks sufficient resources to carry out its responsibility.

e. *Acceptable Conditions of Work.*—The Minimum Wage is set by law and is a function of the type of activity and the location of the business. On June 1, 1995 the daily minimum wage was raised from 15 to 36 gourdes ($1.00 to $2.48). Still, the new wage level falls well short of the real and dollar equivalent minimum wage of ten years ago. The wage hike did not produce the feared negative impact on the assembly sector, where many firms were already paying a higher daily wage rate than required by law.

The labor code has special provisions for workers paid per piece or per task. In these cases, the price paid per unit of production must allow the employee working eight hours per day to earn for his day's work at least the minimum wage set by law. The Labor code sets the normal work day at eight hours and the work week at 48 hours, and establishes minimum health and safety standards.

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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		7
Total Manufacturing		28
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	28	
Wholesale Trade		0
Banking		4
Finance/Insurance/Real Estate		−1
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		39

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

HONDURAS

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1978 prices)[2 3]	2,889	2,849	2,977
Real GDP Growth (percent)	3.7	−1.4	4.5
GDP (at current prices)[2]	2,985	2,788	N/A
GDP by Sector:			
Agriculture	754	732	N/A
Mining	50	52	N/A
Energy and Water	83	79	N/A
Manufacturing	489	479	N/A
Rents	195	N/A	N/A
Financial Services	288	304	N/A
Other Services	735	761	N/A
Government, Health and Education	192	N/A	N/A
Net Exports of Goods and Services[4]	−525	−375	−237
Real Per Capita GDP (US$)	550	525	534
Labor Force (000s)	1,653	1,723	1,783

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Unemployment Rate (percent)	15.8	16.0	15.9
Money and Prices (annual percentage growth):			
Money Supply (M2)[5]	12.3	27.6	31.8
Base Interest Rate[6]	26.4	35.0	36.0
Personal Saving Rate[6]	18.8	19.0	N/A
Retail Inflation	13.0	33.0	N/A
Wholesale Inflation	14.6	26.0	N/A
Consumer Price Index[3]	13.0	28.9	25.0
Exchange Rate (LP/US$—Annual Average):[7]			
Official	6.47	8.41	9.90
Parallel	6.47	8.36	10.0
Balance of Payments and Trade:			
Total Exports FOB[3 6]	846.0	866.7	1,000
Exports to U.S.	433.4	450.4	570
Total Imports CIF[3 6]	1,079.5	1,014.7	1,100
Imports from U.S.	563.0	448.4	550
Aid from U.S.	57	43	32
Aid from other countries	490	400	N/A
External Public Debt	3,607	3,800	4,000
Debt Service Payments (paid)	296	490	380
Gold and Forex Reserves[8]	131.5	205.3	223.1
Trade Balance[3 6]	−233.5	−148.0	−100.0
Trade Balance with the U.S.	−129.6	2.0	20.0

[1] 1995 figures are all estimates based on available monthly data in October, unless otherwise indicated.
[2] GDP at factor cost.
[3] 1995 figures represent year-end projections.
[4] Figures for 1995 cover January to June 30.
[5] Annual percentage growth for 1995 covers the period January to September 22.
[6] Figures are actual average rates not changes in them.
[7] Exchange rates are the average official rate for each year cited: 6.47 (1993), 8.41 (1994), 9.90 (1995-projected).
[8] 1995 figures are as of July 1995.

1. General Policy Framework

Despite abundant natural resources and substantial U.S. and multilateral economic assistance, Honduras remains one of the poorest countries in the hemisphere. In the 1980s, unfavorable terms of trade for primary exports such as bananas and coffee, high external debt levels, and flawed economic policies doomed Honduras to a decade of low growth rates and declining living standards.

From 1990 until 1993, the government of President Callejas embarked on an ambitious economic reform program, including dismantling price controls, lowering import tariff duties and removing many non-tariff barriers to trade. The 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, non-discriminatory incentives for local and foreign investment. Unfortunately, in 1992 and 1993, a sharp rise in public sector spending reversed the progress on the fiscal front and raised the deficit to 11.2 percent of GDP for 1993. External grant inflows financed part of the fiscal gap, but the monetized fiscal deficit resulted in a resurgence in domestic inflation.

Inaugurated in January 1994, President Carlos Roberto Reina inherited an economy in the grips of stagflationary conditions due to an unprecedented energy crisis, declining output of key agricultural products (basic grains and bananas), a depressed construction industry, and extravagant public investment policies of the former Callejas Administration. Reina has taken a series of measures to deal with the fiscal deficit. Reina ordered a 10 percent cut in current spending, laid off more than 4,000 public sector employees and negotiated with the International Monetary Fund (IMF) a series of economic measures which cut the fiscal deficit by 4 percentage points of GDP to 7.5 percent in 1994.

Under President Reina, the restrictive (anti-inflationary) monetary and fiscal policies of the Central Bank have been further tightened. Absolute limits have been im-

posed on public sector borrowing. The reserve requirement (currently 36 percent) remains the favored policy tool to control money supply growth and inflation. The October 1995 passage of the Banking Sector Reform Law by the Honduran Congress will strengthen the Central Bank's ability to adopt a more coherent monetary policy.

Honduras became a founding member of the World Trade Organization (WTO) on January 1, 1995. Honduras signed a Bilateral Investment Treaty (BIT) with the U.S. on July 1, 1995.

2. Exchange Rate Policies

Beginning in 1990, the Honduran government abandoned its fixed exchange rate system and gradually moved to a flexible exchange rate mechanism. These phased policy measures allowed for a smooth transition to a floating exchange rate regime in June 1992. To provide a more transparent and efficient foreign exchange market, the Honduran Central Bank legalized and licensed the operations of foreign exchange trading houses (casas de cambio). Effective 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 returned 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 was revised with every auction, but was permitted to rise by not more than one percent every three weeks. In October 1995 the Central Bank issued a resolution liberalizing the foreign exchange auction system by permitting weekly variations in the exchange rate of 0.5 percent, thereby permitting exchange rate variations of 1.5 percent every three weeks.

In January 1990, the lempira-per-dollar exchange rate was two to one, as it had been for many decades. Since January 1994, the lempira-per-dollar exchange rate has moved from 7.3 to the current rate (January 1996) of 10.24 lempiras per dollar.

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 reforms have been designed to open up the economy to global competition, force local industry to reduce costs, increase productivity, and provide incentives for export-oriented business activity. Among other measures taken has been the reduction of tariff barriers to trade, by gradually cutting import duties to a current range of 5 to 20 percent. The government also removed many 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. Nonetheless, foreign and domestic oil companies' operating margins are severely restricted. As of September 1994, prices for utilities, public transport, fertilizer, cement, ground roasted coffee and air fares remained government-controlled.

Tax Policies: Honduras has long maintained a high corporate tax rate, which has been generally considered a major disincentive to direct foreign investment not covered by the tax exemptions for export-oriented firms operating in export processing zones (EPZs) and industrial parks. The top marginal corporate tax rate is 40 percent. The most important sources of government revenue are the seven percent sales tax and various consumption taxes.

4. Debt Management Policies

Since 1990, the Honduran government has been working to restore the country's credit-worthiness, reschedule its $3.8 billion external debt and regain support from the multilateral development banks. Negotiations began in 1990 with the World Bank, 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 in arrears were made possible by a bridge loan from the U.S., 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 in balance of payments support funds. The IMF program, and repayment of international financial institution arrears, paved the way for favorable debt rescheduling

terms for $350 million of debt. A 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. provided $430 million in debt forgiveness for Honduras. The Honduran government reduced its debt obligations with international commercial banks from $245 million in 1982 to $45 million in June 1992. A series of privatizations and conversion mechanisms was used to settle these obligations.

In 1992, Honduras was classified as an IDA-only country, which opened the door to concessional loans from the World Bank'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. In 1994, Honduras' total external debt obligations total $3.8 billion, well in excess of the country's annual gross domestic product.

In January 1995, the IMF Board approved the letter-of-intent for a second year of a three year Enhanced Structural Adjustment Facility (ESAF). Under the negotiated terms, Honduras received $28 million in World Bank IDA reflows and $30 million in IMF Balance of Payments support. In July, Honduras also succeeded in obtaining favorable Paris Club rescheduling terms for its official bilateral debts.

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 and rice exports to Honduras. In addition, a price band mechanism for yellow corn, sorghum, rice, and soybeans has been in place since August 1992. Imports entering with values within the defined band are assessed a 20 percent tariff. Imports entering with prices above the band are assessed lower duties, according to a predetermined schedule, and those imports priced below the band are assessed a higher tariff.

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 investments, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources, and local transportation.

Honduran law 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.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in the Spanish language and registered with the Ministry of Health. The laws are inconsistently enforced at present. However, these requirements may discourage some suppliers.

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 export processing 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 ten-year tax holiday on profits from these exports under certain conditions.

The export processing zones (EPZs) waive 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 EPZs are exempt from state and municipal taxes. Firms operating in EPZs 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 a WTO member, Honduras has accepted commitments under the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs).

In May 1995 the Government of Honduras submitted to Congress major U.S.-backed reforms of its copyright law, intended to reduce the piracy of cable television signals. Substantial progress has also been made toward concluding a bilateral intellectual property rights agreement with the United States which would go beyond the protection levels afforded under TRIPs. However, Honduras still needs 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 is protected for 17 years from the date of patent application. The Patent Law also contains stiff fines and jail sentences for violators.

Trademarks: The illegitimate registration of 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 Honduras 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 American (MPEAA) estimated the annual loss of revenues resulting from local cable piracy at $2.5 million.

8. Worker Rights

a. *The Right of Association.*—Workers have the legal right to form and join labor unions and, with few exceptions, the unions are independent of the government and political parties. Although only about 18 percent of the work force is organized, trade unions exert some political and economic influence, although in the past year, this influence has somewhat diminished. 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 non-unionized 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 em-

ployees 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. There were allegations of forced overtime in apparel assembly plants, especially for women.

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, the most significant child labor problem is in the construction industry.

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 ten 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 a number of 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. Factory owners have resisted efforts to organize the privately-owned industrial parks. However, in 1995 the Maquiladora Association sponsored several meetings between its members and major labor groups. As a result, tensions declined and several maquilas unionized peacefully in the privately owned EPZs.

Labor in the maquila sector remains a U.S. Government concern. While progress has been made in some of the maquiladoras towards unionization, a hard line in other, mostly Korean-owned, maquilas has led to plant seizures and blockage of public highways. In November 1995, a U.S. interagency delegation, which also included AFL-CIO representation, visited Honduras to review the status of worker rights in the maquila sector and in general. The delegation held discussions with senior government, private sector and labor union leaders on ways to enforce more adequately Honduran labor legislation to protect the rights of association and worker rights in general. As a result of the visit, the Government of Honduras made a number of commitments to improve the worker rights situation in Honduras.

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 cost of Honduras. The seafood is destined primarily for the U.S. market.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		174
Food & Kindred Products	(1)	
Chemicals and Allied Products	3	
Metals, Primary & Fabricated	4	
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—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		5
Finance/Insurance/Real Estate		24
Services		0
Other Industries		38
TOTAL ALL INDUSTRIES		198

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1986 Base Year)	716.5	543.7	481.0
Real GDP Growth Rate (percent)[2]	1.4	0.8	0.8
GDP (at current prices)	3,883.4	3,898.8	4,275.9
GDP by Sector:			
Agriculture/Forestry/Fishing	319.5	357.3	N/A
Mining and Quarrying	253.1	283.0	N/A
Manufacturing	721.0	727.8	N/A
Construction/Installation	491.5	466.6	N/A
Retail Trade	904.3	908.5	N/A
Transportation, Storage and Communication	332.2	339.0	N/A
Real Estate and Business Services	159.0	166.1	N/A
Government Services	395.6	148.8	N/A
Finance	46.9	35.5	N/A
Other	260.3	466.2	N/A
Real GDP per capita (US$—1986 base)	290.1	217.5	200.0
Labor Force (000s)	1,083.0	1,090.5	N/A
Unemployment Rate (percent)	16.3	15.4	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	39.9	36.6	[3]31.6
Base Interest Rate	61.3	56.1	[4]48.2
Personal Savings Rate[9]	11.3	14.1	N/A
Retail Inflation	30.1	26.7	30.0
Wholesale Price Index	N/A	N/A	N/A
Consumer Price Index	546.0	692.3	900.0
Exchange Rate (JD/US$)	25.11	33.34	38.0
Balance of Payments and Trade:			
Total Exports FOB	1,075.4	1,219.5	1,435
Exports to U.S.	419.0	439.7	545
Total Imports CIF	2,189.2	2,177.2	2,570
Imports from U.S.	1,093.1	1,145.1	1,241
Aid from U.S. (FY 94–96)[5]	34.6	24.2	N/A
Aid From Other Countries[6]	399.0	143.6	N/A
External Public Debt	3,687.2	3,651.8	[7]3,514.2
Debt Service Payments	542.1	536.0	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Net Official Reserves	70.8	408.3	[8]446.5
Trade Balance	−1,113.8	−957.7	−1,135.0
Trade Balance with U.S.	−674.1	−705.4	−696.0

[1] 1995 figures are all estimates based on available monthly data in October 1995.
[2] Growth rate is based on Jamaican dollars whereas real GDP is shown in U.S. dollars.
[3] Figure based on July 94-July 95.
[4] Figure as of September 95.
[5] FY 95 does not include military assistance.
[6] Commitments from Jamaica's cooperation partners.
[7] Figure as of August 95.
[8] Figure as of June 95.
[9] Net savings as a percentage of GDP.

1. General Policy Framework

Jamaica is an import-oriented economy with imports of goods and services accounting for two-thirds of GDP. Tourism, bauxite/alumina, and the apparel industry are the major pillars sustaining the economy. In 1994 these three industries accounted for about 82 percent ($2.014 billion) of the country's foreign exchange earnings. As a result, both GDP and foreign exchange inflows are extremely sensitive to external economic factors. The relatively small size of the Jamaican economy and relatively high cost of production (e.g., interest rates) has reduced the contribution of the manufacturing sector over the last several years to about 18.5 percent in 1994. On the other hand, the apparel sector is the fastest growing sector, employing about 36,000 workers and accounting for nearly three quarters of non-traditional exports and over a third of total merchandise exports. Agriculture employs 24 percent of the work force and contributes about eight percent of GDP. The primary agricultural products are sugar, bananas, coffee, and cocoa. About 57 percent of Jamaica's work force is employed in the services sector, contributing 55 percent of GDP.

The Jamaican economy grew marginally by 0.8 percent in 1994, following growth of 1.4 percent in 1993. Due to macroeconomic instability and tight monetary policies, economic growth during 1995 is expected to be rather weak. High inflation and devaluation of the Jamaican dollar, 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 63 entities have been divested and the government is seeking to divest some 16 additional entities in the next few years to increase economic efficiency. Petrojam (oil refinery) and the Jamaica Public Service power company are presently in advanced stages of privatization.

The Jamaican fiscal year 1995/96 budget calls for JDols 81 billion in outlays, an increase of 18.9 percent over the previous fiscal year's budget, but about 10 percent lower in real terms given the 30 percent projected inflation rate in FY 95/96. The present budget reflects a tight budgetary situation with 46 percent of outlays directed to meet the economic development and social needs of the country. The other 54 percent will be used for debt servicing costs (42 percent of the total budget), Bank of Jamaica losses (3.7 percent), and the government payroll (7.9 percent).

Jamaica's internal debt has ballooned in recent years from JDols 23.4 billion in 1993 to JDols 41.2 billion in 1994 and about JDols 60 billion in October 1995. In the past, the Bank of Jamaica's open market operations were a means by which the Government of Jamaica funded its fiscal deficit. The current budget, however, is a departure from the recent practice of reliance on massive central bank assistance. The government hopes to finance the current budget through expected total revenue of JDols 58.1 billion through recurrent, capital revenue, and the capital development fund. The balance will be financed by internal borrowing (71.2 percent of total deficit) and external borrowing (28.8 percent).

Government credit from the Bank of Jamaica (BOJ) has been a major source of the growth in money supply. The BOJ continued its tight monetary policy to reduce spending demand by issuing long-term securities and short-term treasury bills at high interest rates (38.34 percent in October 1995). Interest payments on the maturing securities have served to increase liquidity, necessitating additional security offerings. Recently the government announced that it will freeze its JDols 23 billion deposit in the Bank of Jamaica and end all borrowing as of October 1, 1995. The tighter monetary measures are also intended to stabilize the Jamaican dollar.

Commercial banks are now required to deposit about 67 percent of their deposits with the central bank as reserve requirements. This has limited credit financing to

the private sector and has led to increased interest rates affecting productive investment. Commercial bank lending rates have risen as high as 64 percent in October 1995.

The Bank of Jamaica achieved a positive stock of net international reserves by the end of 1993 for the first time since the mid 1970's. Net international reserves have remained positive, reaching a level of $446.5 million as of June 1995.

Jamaica became a member of the World Trade Organization on March 9, 1995.

2. Exchange Rate Policies

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 arranged through an authorized dealer. Five percent (lowered from 20 percent) of foreign exchange purchases by authorized dealers (commercial banks) must be paid directly to the BOJ. In an effort to increase the official inflows of foreign exchange, the government increased the number of authorized dealers in April 1994; there are now 86 dealers in operation.

The increased use of foreign currency by importers, a slow tourist season, speculation, and increased U.S. dollar deposits have led to an increased demand for foreign exchange For the period January-October 1995, foreign exchange inflow into the official trading market increased by 9.3 percent over the corresponding period in 1994 to $1.02 billion. The Jamaican dollar lost ground by 20 percent in October 1995 as compared to January 1995; the exchange rate went as high as JDols 43 during the third quarter of 1995. As of January 12, 1996, the official rate was JDols 37.50 to 1 USD. The government indicated its plans to intensify its open market operations and to intervene in the market by supplying resources from its international reserves (approx. $64 million) in order to stabilize the Jamaican dollar. U.S. exports to Jamaica may drop slightly if the Jamaican dollar continues to slide.

According to an agreement between Petrojam and the commercial banks, 24 percent of foreign exchange purchases go to Petrojam (the government monopoly for imports of petroleum). 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.

3. Structural Policies

Prices are generally determined by the market, although prices of certain items such as bus fares, water, electricity, and telecommunications are subject to price controls. Prices of these items can be changed only after 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 (and to 60 percent for certain items) on automotive parts. The "Fair Competition Act" was introduced in 1993 to create an environment of free and fair competition and to provide consumer protection.

Taxation accounts for 85 percent of total government revenue. Major sources of tax revenue include: personal income tax (38 percent of tax revenue), value-added tax (31 percent) and import duties (12 percent). Although no tax increases have been imposed in fiscal year 95/96, the government proposes to raise additional revenue of over JDols 110 million through an increase in the tax on cruise ship passengers.

Jamaica is a member of the Caribbean Economic Community (Caricom), and implemented the Caricom Common External Tariff (CET) on February 15, 1991. Under the CET, goods produced in Caricom states are not subject to import duty. Third-country imports are presently subject to import duties ranging between zero 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 between zero 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.

All monopoly rights of the state-owned Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for procurement of commodities under government to government agreements such as PL-480. The U.S. Embassy in Kingston 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 marginally by one percent to JDols 3.65 billion in 1994, the lowest since 1986. Reduction over the last four years has been due mainly to cancellation by official bilateral creditors (debt forgiveness), conversions

of commercial bank debt, debt servicing, and reduction in contracting new loans. Debt servicing during 1994 accounted for 20 percent (U.S. dollars 536.04 million) of exports of goods and services, of which 8.42 percent represents interest payments. The ratio of total outstanding debt to exports of goods and services declined from 156.3 percent in 1992 to 138.11 percent in 1994, due mainly to debt reduction and improvement in exports. While the debt service burden in 1994 was lower than for any year since 1981, debt servicing continues to be a major burden on the government budget. Debt per capita has improved slightly to $1,460.

Half of the public debt is owed to bilateral donors (the United States is the largest bilateral creditor), 37 percent to multilateral institutions, 10 percent to commercial banks, and three percent to other entities. Jamaica completed its Multi-Year Rescheduling Arrangement (MYRA) with the Paris Club of OECD creditor countries and agencies negotiated in 1992. The MYRA provided for rescheduling of $281.2 million of principal and interest for the period October 1992 to September 1995. The government will not be able to enter into further rescheduling agreements with the Paris Club as it has no agreement in place with the IMF.

Under the debt conversion program (reducing foreign commercial debt), $123.5 million has been converted over the past six years. This accounts for about 31 percent of outstanding commercial debt.

5. Significant Barriers to U.S. Exports

Under the Caricom Common External Tariff, the applied tariff rate is to be phased down from the current range of zero to 30 percent to a range of zero to 20 percent by 1998.

Government Procurement Practices: Government procurement is generally carried out through open tenders, and U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of foreign goods competing with domestic manufacturers are few. However, there have been reports of mismanagement in the awarding of contracts, and the government has taken steps to strengthen and expand the Contractor General's Office for effective monitoring and awarding of contracts.

Customs procedures: There has been some improvement in streamlining customs procedures. In order to facilitate the movement of goods, the government has simplified documentation and clearance requirements for exporters. In addition, a preclearance system was put in place last year to facilitate speedy processing of documentation for imports. Computerization of the entire system is still 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 export-import bank, including access to preferential financing through the Export Development Fund, lines of credit, and export credit insurance.

7. Protection of U.S. Intellectual Property

Jamaica, as a member of the World Trade Organization (WTO), is subject to the provisions of the WTO Agreement on Trade-related Intellectual Property Rights (TRIPs). The Jamaican government is in the process of revising legislation to make it TRIPs consistent. The Government of Jamaica and the United States signed a bilateral Intellectual Property Rights Agreement in March 1994. Jamaica is also a member of the World Intellectual Property Organization (WIPO) and a signatory to the Berne Convention.

Patents/Trademarks: 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. 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. McDonald's Corporation has sued a local company for allegedly using its name and sign (infringement of trademark law).

Copyrights: The Jamaican Senate passed the Copyright Act in February 1993; this new law entered into force on 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. Enforcement remains a problem. Piracy of broadcasts and pre-recorded video cassettes is widespread. A draft policy paper on cable television was tabled in parliament in February 1994. The government is presently examining submissions from the public for granting licenses for legal operation of cable television.

8. Worker Rights

a. *The Right of Association.*—The Jamaican Constitution guarantees the rights of assembly and association and freedom of speech. 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.

However, Jamaica's largest unions, including the National Workers' Union, have been unable to organize workers in the Kingston Free Trade Zone. None of the 18 factories there are unionized.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not practiced. Jamaica is a party to the relevant International Labor Organization (ILO) conventions.

d. *Minimum Age for Employment of Children.*—The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, the practice of child labor is not widespread.

e. *Acceptable Conditions of Work.*—A 40-hour week with 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. However, no garment assembly firms in the free zones are unionized and only one garment 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		161
Food & Kindred Products	0	
Chemicals and Allied Products	149	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	13	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		5
Services		23
Other Industries		24
TOTAL ALL INDUSTRIES		1,272

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)	217.3	207.5	100.0[2]
Real GDP Growth (percent)[3]	0.4	3.5	−6.0
GDP (current prices)	368	382	261
GDP by Sector:			
Agriculture	27.6	28.3	17.2
Mining	12.5	13.0	9.7
Manufacturing	82.8	86.0	59.8
Construction	19.9	21.0	12.8
Electricity	5.5	6.1	4.4
Commerce, Rest., Hotels	93.8	97.0	60.6
Transport and Communications	26.5	28.7	21.1
Financial Services	41.6	43.9	31.8
Social Services	63.7	64.9	49.1
Other Services	57.4	58.1	44.9
Net Exports of Goods and Services	−15.4	−19.3	3.0
Per Capita GDP[4]	4,110	4,251	2,728
Labor Force (millions)	35.5	35.4	35.4
Unemployment rate (percent)	3.4	3.7	6.6
Money and Prices:			
Money Supply (M2)	5.9	14.6	−14.6
Banks' Average Cost of Funds	18.6	15.5	44.0
Financial Savings Rate	48.7	54.9	51.0
Consumer Price Inflation	8.0	7.1	50.0
Producer Price Inflation	4.6	9.1	60.0
Exchange Rate (pesos/US$, annual average)	3.1	3.3	6.3
Balance of Payments and Trade:			
Total Exports FOB	51.9	60.9	78.0
Exports to U.S.[5]	42.9	51.6	62.5
Total Imports FOB	65.4	79.3	71.0
Imports from U.S.[5]	45.3	54.8	51.0
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	83.5	89.3	105.4
Debt Service Payments	20.8	18.2	24.5
Gold, Foreign Exchange Reserves (December)	24.5	6.1	15.6
Trade Balance	−13.5	−18.4	7.0
Trade Balance with U.S.[5]	−2.4	−3.2	11.5

[1] Figures for 1995 are estimates based on data available through October.
[2] Apparent drop in 1995 real GDP (as measured in dollars) is due primarily to the devaluation of the peso. Real GDP fell approximately 6 percent
[3] Percentage change calculated from peso value
[4] Current U.S. dollars.
[5] Mexican trade data.

1. General Policy Framework

Mexico's economic policy in 1995 was designed to deal with the effects of a severe economic crisis brought on by a sharp depreciation of the peso that began in late December 1994. The peso depreciated about 40 percent from its pre-crisis level before stabilizing in May 1995. The government's economic adjustment program, implemented at the end of March, relied on tight monetary and fiscal policies to bring down inflation and interest rates, and establish a solid base for economic growth. The falling value of the peso helped Mexico convert a large trade deficit in 1994 (over $18 billion) into a surplus of about $7 billion in 1995. The current account was nearly brought into balance in 1995 from a deficit of $29 billion in 1994. The cost of the adjustment program has been a severe recession with a sharp increase in un-

employment, declining real wages, and plummeting internal demand. GDP is expected to decline by 6 percent in 1995.

On October 29, 1995, government, labor, and business representatives signed an economic pact outlining economic policies for the end of 1995 and 1996. The government granted tax concessions to businesses in an effort to reinvigorate the economy, scheduled price increases for fuels and electricity, and committed to cut real spending by 5 percent in 1996. The pact also called for an increase in the minimum wage, which serves as a benchmark for most wages, of 10 percent in December 1994 and April 1996. The government expects, as a result of the agreement, that the economy will grow 3 percent in 1996 and that inflation will be held to 20 percent.

2. Exchange Rate Policies

From November 1991 until December 1994, Mexico maintained an exchange rate band for the peso in which the maximum and minimum values of the band were adjusted daily by a factor that corrected for inflation differences between the United States and Mexico. In 1994, strong peso selling followed major political developments such as the Chiapas uprising and the assassination of the Institutional Revolutionary Party (PRI) presidential candidate Donaldo Colosio, forcing the government to use foreign exchange reserves to maintain the value of the peso within the exchange rate band. In the face of an attack on the peso in November and December 1994, the Government of Mexico virtually exhausted foreign exchange reserves trying to support the peso and was forced to devalue the peso by 15 percent on December 20. Unable to support the peso at this lower exchange rate, the government abandoned the foreign exchange band in favor of a free-floating exchange rate on December 22. The free float continues with the government intervening infrequently to correct disorderly conditions.

The value of the peso changed little in nominal terms between November 1991 and early 1994. In early 1994, however, turbulent politics spawned a flight of capital and a consequent 10.3 percent depreciation in the peso between January and mid-December 1994. From December 19, 1994 through the first 10 months of 1995, the peso lost almost 50 percent of its value against the dollar. Partially as a result of this sharp devaluation, U.S. exports to Mexico decreased 9.6 percent over the first eight months, according to U.S. trade data. This trade pattern contrasts with 1994 when there was a 22.1 percent increase in U.S. exports to Mexico and a 23.9 percent increase in Mexican exports to the United States.

3. Structural Policies

The North American Free Trade Agreement (NAFTA), which entered into force in January 1994, is the cornerstone of Mexico's trade policy. NAFTA's key features include:

Progressive elimination of tariffs, non-tariff barriers, and quotas for merchandise trade;

Phased limited opening of Mexico's service sector, including financial services, to investment and cross-border transactions by U.S. and Canadian firms;

Gradual opening of the Mexican central government purchasing and construction contracts to bidding by U.S. and Canadian firms.

Clear dispute resolution and international arbitration procedures to provide protection to U.S. and Canadian investors in Mexico; and

Commitment from all parties to afford effective protection to intellectual property rights. Mexico is pursuing free trade agreements with some countries in Central and South America, and is expected to seek to liberalize trade further with the European Union.

Regulation of the Mexican economy has decreased significantly in the 1990s. The government introduced legislation in 1993 to promote greater competition, limit monopolistic behavior, and prohibit practices that restrain trade. A 1993 foreign trade law eliminated most non-tariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. Mexican investigations of unfair trade practices are generally considered fair and transparent. The Mexican customs service has been modernized and automated, and a program to professionalize personnel and weed out corruption is underway.

The government has privatized or eliminated more than 1000 state-owned companies since 1986. Privatizations during the administration of President Salinas included commercial banks, the telephone company, a television network, airlines, steel production, and several major industrial facilities. President Zedillo has committed to continue the privatization trend. His administration currently is working to privatize management and some facilities at ports, airports, and railroads. Secondary petrochemical plants will be sold in their totality. In addition, the govern-

ment is establishing procedures to permit competition in the production of electricity and in telecommunications.

4. Debt Management Policies

As outlined in its March 1995 emergency economic program, the Mexican government's debt strategy seeks to: a) refinance and extend the maturities of short term dollar-denominated obligations; b) stabilize financial markets and restore confidence through a strong macroeconomic adjustment program in response to lower capital inflows; and c) reestablish access to international capital markets. The budget law approved by the Mexican Congress in December 1994 limited net external borrowing to $5 billion in 1995. This clause was modified in February 1995, however, to permit additional foreign borrowing to finance maturing dollar-denominated short term government notes (tesobonos) totalling over $26 billion.

To support Mexico's macroeconomic stabilization program, one of the largest international economic support packages ever was assembled. The original package consisted of up to $51.8 billion, divided as follows: up to $20 billion from the U.S. government; up to $17.8 billion from the International Monetary Fund (IMF); up to $10 billion in short term swap facilities from the Bank of International Settlements (BIS); up to $3 billion from a group of international commercial banks; and up to one billion dollars from Canada. As of October 1995, Mexico had drawn $11.5 billion from the IMF and a net of $11.8 billion from the exchange stabilization fund of the United States.

Mexico's public sector external debt, including IMF obligations, reached $112.9 billion in July 1995, up from $84.5 billion at the end of December 1994. At the end of 1994, total public and private sector foreign debt was $127.4 billion and, because of the need to substitute external borrowing for peso borrowing, by July 1995 grew to $153.1 billion. The Mexican private sector borrowed heavily in international markets in the 1992–1994 period, with debt growing to $46.2 billion at the end of 1994. By July 1995, private sector foreign borrowing had declined to $44 billion.

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, eventually to eliminate all import licensing requirements. The Mexican government still requires import licenses for slightly under 200 product categories, many of which are in the agricultural sector. For U.S. and Canadian exporters to Mexico, NAFTA replaced agricultural import licenses with tariff rate quotas and, it may be argued, in some cases with sanitary and phytosanitary requirements. The NAFTA agriculture sector reduces tariffs 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 created new opportunities for U.S. automobile manufacturers and parts suppliers in Mexico. Due to the economic crisis, in 1995 automobile imports fell sharply.

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. Legislation to effect these changes is currently being drafted, and will likely be sent to Congress for approval in 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. Mexico recently modified its constitution to allow for private participation and equity in Mexican telecommunications satellites, including ownership of transponders. Long distance telephone service is reserved for Telefonos de Mexico until January 1, 1997 by a government concession. Mexico's new telecommunications law sets no limits on the number of service providers after that date. Local, basic telephone service is already technically open to competition, but the radio-spectrum on which future, fixed-wireless networks depend will be auctioned sometime in 1996. A number of U.S. companies have teamed with Mexican partners to apply for long distance licenses, and some have already received them.

Financial Services: Mexico continued during 1995 to promote competition and diversification in the financial sector by encouraging foreign investment. New rules adopted in February 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than six percent of the total capital in the banking system (this effectively excludes Mexico's three largest banks). Foreigners may now own up to 25 percent of the net capital of the banking system as compared to eight percent that would have been permitted this year under NAFTA. Also, both Mexican and foreign individuals and companies are allowed to own up to 20 percent (instead of 10 percent under previous regulations) of a Mexican financial institution. As of October 1995, some 90 foreign financial institutions had been authorized or received favorable options (one step short of actual authorization.) Of these 90, 65 are U.S. companies.

Motor Carriers: As a result of bilateral consultations and the Mexican government's deregulation of truck and bus operations, U.S. truckers and charter bus operators now have substantial access to Mexico. Although full trucking authority for U.S. carriers is still limited to the border commercial zone, U.S. freight carriers have open access for trailer entry into Mexico and may thus deliver door-to-door. Mexican tractors and drivers are required by law to haul all trailers bound for interior points, but this has not been considered a major obstacle by U.S. transportation companies. U.S. charter tour buses now have full access to all points in Mexico; regularly scheduled bus operations are restricted reciprocally to the border zones. Mexican authorities are implementing new safety, weight and dimension regulations to meet U.S. standards, and the two countries are preparing for the standardization and reciprocal recognition of commercial drivers' licenses. A schedule for full liberalization has been negotiated under NAFTA. The planned December 18, 1995 opening of border states to cross-border trucking was postponed pending resolution of remaining U.S. safety concerns.

Mexico is obliged under NAFTA to grant U.S. small package and express delivery services full national treatment. Mexico is in the process of drafting regulations that will allow U.S. small package service companies to operate on a par with Mexican companies. For more than two years the U.S. has been pressing Mexico on the importance of promulgating regulations that meet widely accepted standards in this area, so far without success. We continue to hope for a speedy resolution of this problem.

Standards, Testing, Labeling and Certification: The Mexican government 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. As a result, independent standards and certification organizations are virtually non-existent. The Ministry of Trade has begun efforts to reverse this situation, shifting responsibility for the formulation of voluntary standards to the private sector or to mixed commissions.

In 1992 the government undertook an ambitious project to revamp its entire system for formulating product standards, testing, labeling and certification regulations. The cornerstone of this review is the 1992 Standardization and Metrology Law, which provides for greater transparency and access by the public and interested parties to the regulation formulation process. This exercise has resulted in a reduction of obligatory product standards to just above three hundred.

Under the NAFTA, Mexico reaffirmed its GATT obligations to base its obligatory norms on international standards. Mexico committed to make its standards compatible with all U.S. standards and to recognize U.S. standards-certifying entities beginning in 1998. 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 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 range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation). Despite remaining restrictions, the 1993 Foreign Investment Law greatly liberalized foreign investment, eliminating the requirement for government approval in around 95 percent of foreign investments. The constitution was amended in 1995 to allow foreign investment in railroads, telecommunications and satellite transmission. Privatization of the country's secondary petrochemical complexes also will be allowed, with the first request for bids issued on November 14, 1995 for sales to take place by mid-1996.

Provisions contained in NAFTA opened Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies' national treatment, the right to international arbitration and the right to transfer funds without restrictions. NAFTA also eliminated some barriers to investment in Mexico, such as trade balancing and domestic content requirements. Mexico additionally has implemented its commitment under NAFTA to allow the private ownership and operation of electric generating plants for self-generation, co-generation, and independent power production. On November 8, 1995, Mexico issued the first regulations allowing private sector participation in the transportation, distribution and storage of natural gas.

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. Foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. 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. Both foreigners and Mexican citizens encounter problems with enforcement of property rights.

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 Treasury Secretariat. In 1991, Mexico abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries, whether GATT members or not, now may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers. Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to suppliers from all NAFTA countries, the procurement law enacted in 1994 distinguishes between procurement contests open to national versus international suppliers. The law, however, acknowledges Mexico's procurement obligations under NAFTA and other international trade agreements. A specific preferential treatment in public procurement is granted to domestic drug suppliers (which includes foreign companies established in Mexico). NAFTA gradually increases U.S. suppliers' access to the Mexican government procurement market, including the state-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. and Canadian suppliers, and this percentage will increase in steps until all PEMEX and CFE procurement is open by 2004.

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 bond-posting requirements.

In September 1994, the Mexican government began to require certificates of origin for textiles, apparel and footwear subject to Mexican unfair trading (primarily antidumping) orders and 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 with reputable U.S. exporters to exempt them 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 dramatically 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. Both issues will be addressed in the customs reform legislation now pending before the Mexican Congress.

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.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations and conventions 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 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. A new feature 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 comments on amending its copyright law of August 1991 to bring it into accord with the most up-to-date international practices. 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 Mexican federal authorities conduct investigations and carry out raids, few arrests result. Criminal cases have been compromised by information leaks and loss of evidence. Music industry sources estimate that two out of every three audio tapes sold in Mexico still are pirated products. Software firms estimate their losses at $162 million in 1994, or close to 78 percent of total software sales in Mexico. 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. The committee, however, has not been active in 1995. The U.S. recently proposed a bilateral commission to investigate IPR enforcement problems in the two countries. Much work remains to be done in combatting piracy in Mexico.

8. Worker Rights

For an introduction to Mexican labor law, see "A Primer on Mexican Labor Law" and "A Comparison of Labor Law in the United States and Mexico: An Overview," both published by the U.S. Department of Labor.

a. *The Right of Association.*—The Federal Labor Law (FLL), embodied in the Mexican Constitution, 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. The Confederation of Mexican Workers (CTM) is by far the largest. Unions must register with federal or state authorities to acquire legal status. Registration requirements are not onerous, but federal or state authorities reportedly use this administrative procedure improperly to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of ministerial consultations in 1995 under the North American Agreement on Labor Cooperation (NAALC—the NAFTA labor side agreement) and subsequent trinational seminars. Unions, federations and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. This can also protect undemocratic or corrupt union leaders. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. In 1995, the International Labor Organization (ILO) Committee of Experts and Conference Committee on Application of Standards reiterated previous criticism that restrictions in Mexican federal employee labor law violate freedom of association, though enacted at federal employee request. The Mexican Government promised to study amending the law and report to the ILO before the 1996 Conference.

The CTM and most of the 37 smaller confederations, federations and separate national unions in the Labor Congress (CT) are allied with the governing Institutional Revolutionary Party (PRI). Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and support PRI government policies at crucial moments. This gives the unions considerable influence on government policies, but limits their freedom of action. Rivalries within and between PRI-allied organizations are strong. A few small labor federations and independent unions are outside the CT and not allied to the PRI.

b. *The Right to Organize and Bargain Collectively.*—The FLL strongly upholds this right. About 30 percent of all Mexican workers are organized. Given that less than half of the work force is in the formal sector, and therefore accessible to organization, the effective rate of organization in the formal sector is nearly double the national rate. The public sector is almost totally organized. Industrial areas are heavily organized, but states with little industry often have few industrial unions. The law protects workers from anti-union discrimination, but enforcement is uneven. Industry or sectoral agreements ("Contratos Ley") carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the Government and major trade union, employer, and rural organizations ceased to limit free collective bargaining, as they had voluntarily for the past decade.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor and none has been reported.

d. *Minimum Age for Employment of Children.*—The FLL sets 14 as the minimum age for employment, but those under 16 may work only six hours a day, with prohibitions against overtime, night labor and performing hazardous tasks. Enforcement is reasonably good at large and medium companies, but inadequate in small companies and in agriculture, and nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (including myriad street vendors), agriculture, and rural areas. In 1992, the Mexican government increased from six to nine the minimum number of years children must attend school and made parents legally liable for their children's non-attendance. In 1993, the ILO developed a national action plan against child labor with the Mexican government's Social Development Secretariat (SEDESOL), but implementation was interrupted by the change of administration and subsequent economic crisis.

e. *Acceptable Conditions of Work.*—The FLL provides for a daily minimum wage, set annually effective January 1 by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party can ask the board to reconvene to consider a special increase, as occurred with the 12 percent increase in April 1995. In November 1995, the three parties agreed to ask the Board to increase the minimum wage 10 percent on December 4, 1995, and another 10 percent on April 1, 1996, skipping the annual increase on January 1, 1996. On December 4, the minimum daily wage, in pesos, in Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone and most border areas, will be 20 pesos ($2.86 at an exchange rate of 7.0 pesos per dollar). Approximately 12 percent of the labor force earns the minimum wage. Industrial workers average three to four times the minimum wage. The law and collective agreements provide extensive additional benefits. Those legally required include social security medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit-sharing, maternity leave and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with good union contracts. Eight hours is the legal workday and six days the legal workweek, with pay for seven. Workers asked to exceed three hours of overtime per day or work overtime on three consecutive days receive t triple the normal wage. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on hourly wages.

Mexico's occupational safety and health (OSH) laws and rules are relatively advanced. Employers must observe "General Regulations on Safety and Health in the Work place" issued jointly by the Secretariat of Labor (STPS) and the Mexican Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review work place safety and health needs. Individual employees or unions may also complain directly to inspectors or STPS/OSH officials. Workers may remove themselves from hazardous situations without reprisal and bring complaints before the Federal Labor Board at no

cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal inspectors are stretched too thin for effective enforcement. There are special problems in construction, where unskilled, untrained, poorly-educated, transient labor is common.

f. Rights in Sectors With U.S. Investment.—Worker rights conditions in sectors with U.S. investment do not differ significantly 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		10,697
Food & Kindred Products	136	
Chemicals and Allied Products	105	
Metals, Primary & Fabricated	21	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		994
Banking		(1)
Finance/Insurance/Real Estate		1,982
Services		261
Other Industries		2,335
TOTAL ALL INDUSTRIES		16,375

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1993 prices)	1,814.3	1,818.2	1,891.0
Real GDP Growth (percent)[2]	−0.4	3.2	4.0
GDP (at current prices)	1,814.3	1,857.5	1,868.1
GDP by Sector:			
Agriculture[3]	552.8	608.1	617.3
Energy and Water	21.2	21.6	21.7
Manufacturing/Mining	320.6	316.5	311.6
Construction	44.0	54.7	58.8
Rents	50.6	49.9	49.2
Financial Services	50.0	49.7	48.9
Other Services	625.1	623.0	625.3
Govt, Health and Education	150.0	134.1	135.2
Net Exports of Goods and Services	−403.0	−434.1	−391.0
Real Per Capita GDP	468	454	457
Labor Force (000s)	1,367	1,412	1,459
Unemployment Rate (percent)	21.8	20.7	20.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.0	55.7	15.5
Base Interest Rate	11.5	12.4	12.5
Personal Saving Rate	−14.6	−13.3	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Consumer Price Index	19.5	12.4	10.0
Exchange Rate (cordobas/US$):			
Official (period average)	6.1	6.7	7.6
Parallel (period average)	6.3	6.9	7.7
Balance of Payments and Trade:			
Total Exports FOB[4]	267.0	351.2	470.0
Exports to U.S. FOB	125.9	166.8	236.8
Total Imports FOB[4]	670.0	785.0	861.0
Imports from U.S. FOB	149.8	185.5	300.5
Aid from U.S.	80.5	80.9	30.7
Aid from Other Countries	306.2	482.1	488.0
External Public Debt	10,445	10,704	10,200
Debt Service Payments	193.9	241.7	212.3
Gold and Forex Reserves	87.7	172.3	150.0
Trade Balance[4]	−403.0	−433.8	−391.0
Balance with U.S.	−23.2	−28.6	−63.7

[1] Projections based on data available in October 1995.
[2] Percentage changes calculated in local currency.
[3] Includes livestock and fisheries.
[4] Merchandise Trade.

1. General Policy Framework

Nicaragua's transition from a centralized to a market-oriented economy began with the election of President Violeta Chamorro in 1990. During its first three years, the Chamorro Administration stabilized the currency, brought inflation under control, liberalized the foreign trade regime, and re-started the private banking sector. In 1994, the economy grew for the first time in a decade. Real GDP expanded by 3.2 percent that year, grew another 4 percent in 1995, and is projected to increase by at least 4 percent in 1996.

The country remains essentially agricultural with a very small manufacturing base. It is dependent on imports for provision of most manufactured, processed, and consumer items. A member of the World Trade Organization (WTO) since September 3, 1995, Nicaragua has reduced tariffs, eliminated most nontariff barriers, and greatly relaxed foreign exchange controls. Export promotion is a top national goal, with exports up 76 percent from 1993 to 1995 (to an estimated $470 million). The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

In June 1994, Nicaragua came to agreement with the IMF on a three-year Enhanced Structural Adjustment Facility (ESAF).

2. Exchange Rate Policies

Since January 1993, the Government of Nicaragua has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily with the real exchange rate held essentially constant. However, because the rate of inflation has exceeded the rate of devaluation in recent years, at the end of 1995 the cordoba was overvalued by 15 percent compared to March 1991. A legal parallel exchange market supplies foreign currency for virtually all types of exchange transactions. The spread between the official and parallel markets was between one and two percent in 1995. In late 1995, the Government announced its intention to eliminate all remaining restrictions on the foreign exchange system and unify the official and parallel markets. The exchange rate on January 12, 1996 was cordobas 7.99 to 1 USD.

3. Structural Policies

Pricing Policies: Since taking office in 1990, the Chamorro Administration has lifted price controls on most items, with the exception of sugar, domestically produced soft drinks, and certain petroleum products. Controls also apply to pharmaceutical sales margins. However, in the past the Central Government has negotiated voluntary price restraints with domestic producers of important consumer goods.

Tax Policies: Nicaragua maintains a maximum tariff level on virtually all imports of 20 percent of CIF value. An additional Temporary Protection Tariff of 5 to 15 percent of CIF value is levied on some 900 imported items, largely goods that are also

produced in Nicaragua. Some 750 other products are assessed a Specific Consumption Tax, generally limited to 15 percent of CIF value. A stamp tax of five percent is levied on all imports (tax legislation under consideration in late 1995 proposes a reduction to one percent for raw materials and industrial inputs). The country's 15 percent sales tax is charged (in a cascading fashion) on all imported goods that are not categorized as basic food basket items. Overall import taxation levels on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Thus, importers of many types of consumer items confront a total import tax burden of 30 to 45 percent. Chicken is the only product in Nicaragua covered by a tariff rate quota.

4. Debt Management Policies

The Chamorro Administration inherited a $10.6 billion debt from the Sandinista regime in 1990. After clearing its arrears with the World Bank (IBRD) and the Inter-American Development Bank (IDB) and receiving significant debt relief from the Paris Club in 1991 and 1994, the Government focused on a strategy designed to achieve significant reductions in debt stock. In March 1995 the Government reached agreement with Paris Club creditor nations under "Naples terms" treatment for the poorest and most indebted countries. In November 1995 Germany agreed to an 80 percent reduction of Nicaragua's nearly $600 million debt with the former German Democratic Republic. The Government also engaged in negotiations seeking forgiveness of debt to other Latin American countries (totalling $2.3 billion) as well as the former Soviet Union ($3.4 billion).

Nicaragua, with the assistance of the IBRD, IDB, and several European countries, successfully concluded in November 1995 a buy-back of over 79 percent of its outstanding commercial debt. Nevertheless, in late 1995, Nicaragua's debt was still about $10.2 billion, nearly 21 times annual export earnings, and a per capita debt of approximately $2,460. The government's hope is that its strategy will reduce its annual debt service to about $150 million by the end of 1996, a level that would be manageable under expected aid flows and export projections.

5. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms, and explosives. U.S. exporters of food products should check with the Ministry of Agriculture concerning phytosanitary requirements.

Services Barriers: Although 11 private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Insurance activities are currently in the hands of a state monopoly, but legislation is pending that would allow private sector participation in the sector.

Investment Barriers: Foreign exchange generated from the export of most traditional products (e.g., coffee, sugar, beef, cotton) must be surrendered to the Central Bank, although private banks can accept the dollars as agents of the Central Bank. Remittance of 100 percent of profits generated through foreign investments, as well as of original capital three 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, but the Governmental will not guarantee that foreign exchange will be available. In any event, Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews and a requirement for domestic processing of the catch.

Customs Procedures: Importers complain of steep secondary customs costs including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding another layer of costs. Importers also complain that some competitors either smuggle in goods or under-declare their values in order to avoid tariffs and thus offer the goods on the market at reduced cost.

Private Property Rights: The resolution of thousands of cases of homes, businesses, and tracts of land confiscated without compensation by the Sandinista government during the last decade remains an issue in Nicaragua. The Chamorro government has made the resolution of these cases a priority and is working to privatize the state-owned telephone company in order to use the proceeds to improve compensation for individuals whose properties were confiscated. Legislation was also introduced to clarify the legal status of thousands of properties confiscated during the Sandinista years. Passage before the end of 1995 is expected. Nonetheless, potential U.S. investors should carefully verify property titles before purchase.

In July 1995 the United States and Nicaragua signed a Bilateral Investment Treaty designed to improve protection for investors. The treaty has not yet been submitted to the Senate for ratification.

6. Export Subsidy Policies

The 1991 export promotion decree established a package of fiscal incentives for exporters of non-traditional goods (i.e., goods other than coffee, cotton, sugar, wood, beer, lobster, and sea-harvested shrimp). Such products receive an exemption on payment of 65 percent of income tax liabilities. While this benefit expires after 1997, the government's Export Promotion Committee will be empowered to extend exemptions beyond that date to export lines of key interest to the country. In addition, foreign inputs that go into the production of export goods are allowed to enter duty-free and are exempt from value added tax. Exporters of nontraditional goods are given preferential access to foreign exchange at the official rate and receive a tax benefit certificate equivalent to 10 percent of the FOB value of the exported goods (the benefit will drop to 5 percent in 1997). Export licenses were abolished in September 1995.

7. Protection of U.S. Intellectual Property

In 1990, the Nicaraguan Government committed itself to provide adequate and effective protection for the 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 international standards.

Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is in the process of modernizing its intellectual property rights protection regime. A draft of a new patent law is under review and the Government plans to revise significantly competing draft laws on copyright protection. The trademark law was updated in 1994 and is codified in the Central American Convention for the Protection of Intellectual Property.

The Government has publicly committed itself to accede to the Paris Convention for the Protection of Industrial Property and to the Berne Convention on Copyrights. However, as of late 1995, the Government had not acceded to either convention. 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); and
Brussels Convention on Satellites (1974)

Trademarks: Notorious trademarks represent a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction, at a low fee, for 15 years.

Copyrights/New Technology: Pirated videos are readily available in video rental stores nationwide, 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 trend of negotiating contracts with U.S. sports and news satellite programmers, and the first legal sales of HBO Ole/Cinemax concessions to four Nicaraguan cable companies. One of Managua's private television stations transmits (often from video cassettes) pirated U.S. films. A report prepared in 1994 by the International Intellectual Property Alliance estimated that losses in Nicaragua due to copyright infringements cost U.S. firms $5.3 million annually.

8. Worker Rights

a. *The Right of Association.*—The Constitution guarantees the right of workers to organize voluntarily in unions. New unions must register with the Ministry of Labor and be granted legal status before they may engage in collective bargaining. Some labor groups have reported occasional delays in obtaining this status. Nearly half of the formal sector work force is unionized, according to labor leaders. Nicaragua's unions are independent of the Government. The Constitution recognizes the right to strike and the labor code prohibits retribution against strikers and union leaders for legal strikes.

b. *The Right to Organize and Bargain Collectively.*—The Constitution provides for the right to bargain collectively. The Chamorro Government has generally sought to foster resolution of labor conflicts (usually in the public sector) through informal negotiations rather than through formal administrative or judicial processes.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. *Minimum Age for Employment of Children.*—The labor code allows children aged 12 to 16 to work with parental permission. Their work day is limited to 6 hours with night work prohibited. Children under 14 are prohibited from working in factories, but can be used in agriculture if it does not interfere with their schooling. However, because of the economic needs of many families and weak government initiative, these rules are rarely enforced.

e. *Acceptable Conditions of Work.*—Minimum wages were adopted in 1991 although labor groups claimed that the levels were inadequate. Recent Ministry of Labor surveys indicate that 86 percent of urban workers earn more than the minimum wage. The Constitution guarantees an 8-hour work day and establishes the right to a safe and healthy workplace. The standard legal work week is six days with a maximum of 48 hours. The Ministry of Labor lacks adequate staff to enforce health and safety standards.

f. *Rights in Sectors With U.S. Investment.*—The application of the above-described worker rights in sectors with U.S. investment does not differ significantly from their application in the rest of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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	−1	
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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	5,362	5,562	5,718
Real GDP growth (percent)	4.1	3.7	3.8
GDP (current prices)	7,103	7,420	7,709
GDP by Sector (percent of total):			
Agric./Forestry/Fisheries	10.1	9.8	9.8
Mining	0.2	0.2	0.3
Manufacturing	9.3	9.1	9.4
Utilities	3.2	3.2	3.3
Construction	6.7	7.7	6.5
Commerce/Hotels/Restaurants	11.9	11.9	11.7
Panama Canal	8.6	8.4	8.6
Oil pipeline	0.8	0.3	0.6

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Colon Free Zone	8.6	9.0	9.0
Transport/Communications	7.4	7.3	7.5
Fin./Insurance/Real Estate	14.9	15.4	15.4
Government Services	10.8	10.6	9.9
Other	7.4	7.3	8.0
Real GDP Per Capita (1982 prices)	2,116	2,154	2,171
Labor Force (thousands)	940	967	996
Unemployment (official rate)	13.3	13.8	13.8
Money and Prices (annual percentage growth)			
Quasi-money	4,300	3,916	4,282
Commercial interest rates:			
Fixed Deposit	5.8	6.5	3.8
Average Lending	9.7	10.2	9.0
Gross Savings (percent GDP)	16.0	16.7	16.5
Gross Investment (percent GDP)	20.0	21.4	22.0
Consumer Price Index	0.9	1.3	1.1
Wholesale Price Inflation (annual average)	2.5	2.6	2.0
Exchange Rate (balboa/US$)	1.0	1.0	1.0
Balance of Payments and Trade:			
Total Merchandise Exports (FOB)	500	539	548
Exports to U.S.	225	205	214
Total Merchandise Imports (CIF)	2,007	2,404	2,452
Imports from U.S.	803	889	1,054
Aid from U.S. Government	42	21	19
External Public Debt	5,369	5,539	5,300
Debt Service Paid	234	286	300
Trade Balance	−1,507	−1,865	−1,904
Trade Balance with U.S.	−578	−684	−840

[1] Statistics revised January 1996.

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 19 percent of GDP. Agriculture, forestry, and fisheries account for about 10 percent of GDP. Growth of Panama's economy continues to slow from the previous five years. The high point was reached in 1991, with a growth of 9.6 percent.

The Government of Panama released revised figures in January 1996 for economic performance from 1980–94, based, according to government officials, on a change in statistical methodology as well as a change in the base year from 1970 to 1982. As a result of this methodology change, GDP growth rates from 1990-present have been reduced, which has the effect of enhancing Panama's 1995 economic performance. (Note: 1995 was the first full year of the Perez Balladares administration.)

Construction and capital goods spending, re-exports from the Colon Free Trade Zone, other services exports, and a record year in Panama Canal revenues have been the main sources of growth in 1995. Canal traffic and revenues are forecasted to decrease slightly in fiscal year 1996.

The Perez Balladares Administration, which took office September 1, 1994, has moved to liberalize the trade regime, privatize state-owned enterprises, and encourage job-creation through labor code reforms; however, progress in these areas has been slow. The most important immediate economic goals of the administration have been to join the World Trade Organization (WTO), to attract foreign investment, and to restructure Panama's outstanding foreign debt, which is very high in per capita terms. In the absence of progress in these areas, growth in all sectors of the economy is likely to remain sluggish, and job creation, the stated number-one goal of the administration, will lag behind population growth. Since coming to office, the current government has succeeded in attracting some foreign investment

to the reverting (Panama Canal) areas. It also concluded an agreement to restructure Panama's debt, through a Brady-type plan.

The drawdown of U.S. troops over the next four years may have a negative effect on Panama's GDP, though to what degree is uncertain. As this report was being written, the U.S. and Panamanian Governments were about to enter informal talks to discuss the desiribility of a post-2000 basing rights agreement. The U.S. military injected about $360 million into the Panamanian economy in 1994, or about five percent of its GDP.

Medium-term prospects for strong economic growth and job-creation will depend upon a sustained effort by the Panamanian Government to eliminate economic distortions, reduce tariffs, privatize state-owned enterprises, enforce intellectual property rights, and attract foreign investment.

The use of the U.S. dollar as Panama's de-facto currency means that fiscal policy is the Government's only macroeconomic policy instrument. Government spending and investment are strictly bound by tax and non-tax revenues 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. (Note: the Balboa circulates in coins only; notes are U.S. greenbacks.) 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. Also, the fixed parity means that U.S. exporters have no risk of foreign exchange losses on sales to Panama.

3. Structural Policies

The Government of Panama appears committed to trade liberalization and reduction of structural economic distortions, and has published an ambitious national economic plan, whose centerpiece includes accession to the WTO. The Government is also attempting to impose fiscal discipline, encourage internal savings, and partially privatize some public entities and utilities.

While the still-inflexible labor code needs more revision and many prices are still controlled, the Government is moving to establish an antitrust law and enforcement authority, and to advance 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, it is expected that the results of Panama's WTO negotiations will result in an effective rate of protection of under 30 percent for non-agricultural products. Late in 1995, the Government reduced tariffs on almost 2,000 products used as industrial inputs. Most of the vast majority of these products had no domestic producer.

Panama enacted a "Tax Reform Act" in December 1991 and a "Privatization Framework Law" in July 1992. The former reduced corporate income tax rates to 30 percent (effective in 1994); the June 1995 "Universalization Law" further reduced distortions in the fiscal code. The latter privatization law has resulted in very few actual privatizations to date, although the Government is scheduled to privatize INTEL, the state-owned telephone monopoly, by mid-1996. It is also soliciting bids for the construction and operation of a 100 megawatt thermoelectric generating plant. Privatizations of a racetrack, state-owned casinos, and two sugar mills are expected to be carried out in the coming years.

4. Debt Management Policies

In October 1995, the Government of Panama and the Bank Advisory Committee for Panama (chaired by Citibank) completed the term sheet for the $3.5 billion "Brady-style" financing package covering Panama's mediumand long-term debt to external private creditors. An agreement in principle, which formed the basis for the term sheet, was announced in May. The Government hopes to close the deal in the second quarter of 1996. The international financial institutions (IFIs) will disburse loans to cover about half the closing costs. Panama has not made payments on the loans since 1988.

The term sheet, which carries the endorsement of the multilateral financial institutions, was distributed to Panama's approximately 200 external private creditors. In addition to past-due interest bonds, the financing package offers cash creditors a range of options, including discount bonds, par bonds, interest reduction bonds, and a new money option. Each of the options is freely available to all creditors on a voluntary basis. All bonds are denominated in U.S. dollars.

The debt and debt-service reduction package covers approximately $2.0 billion of Panama's external debt owed to private creditors as well as past-due interest payments which have been reduced to approximately $1.5 billion. With respect to inter-

est arrears, Panama has agreed to make partial interest payments of approximately $2 million per month from January 1, 1995 and a cash payment of approximately $100 million at closing. The initial payments were made on June 30, 1995 and September 30, 1995, and will be made quarterly thereafter.

Panama will have to include in its central Government budget a significant sum for additional debt servicing under the plan. There will be one debt service payment due to holders of the new Brady bonds at the end of 1996, if the deal closes as scheduled. Panamanian officials and the foreign commercial bankers believe that the agreement will allow Panama to normalize its relations with its commercial creditors and to return to the international capital markets.

Panama cleared its arrears with the IFI's and other official creditors in the early 1990's, with the exception of debts owed to Mexico and Venezuela under the "San Jose Accord." Panama remains current on interest and principal payments to U.S. Government creditor agencies.

Because of the limitations on the central Government to access international credit markets directly, the Government has sought joint venture and build-operate concession arrangements in order to build much-needed infrastructure. The Inter-American Development Bank and the World Bank's International Finance Corporation have expressed interest in helping to finance some of these projects.

5. Significant Barriers to U.S. Exports

The Government's economic reform program is oriented toward export-led growth dependent on foreign investment. The Panamanian economy, which had been one of the most heavily protected in Latin America, with tariff rates of approximately 40 percent (as compared to 20 percent in other Central American countries), should be more open after Panama joins the WTO. The "Universalization Law" created incentives for export-oriented production and will remove, over a period of years, special incentives previously granted to protected agricultural and industrial sectors.

Investment: The Government promotes foreign investment opportunities in sectors such as agriculture, industry, tourism, and an expanded range of services. Foreign investors are accorded national treatment. 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.

Panama does not have an investment screening mechanism, but 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. The recent revision to the labor code makes it less difficult for companies to dismiss Panamanians.

Services: While the Government of Panama does not officially present any barriers to U.S. service suppliers in banking, insurance, travel/ticket, motion picture, and air courier services, some professionals can expect certain technical/procedural impediments. Architects, engineers, and lawyers, for example, must be certified by Panamanian boards.

Agriculture: In general, Panama's agricultural sector is still heavily protected by non-tariff barriers. Rice, corn, beef, dairy products, soybeans, and wheat are controlled by the Ministry of Agriculture and/or the Agricultural Marketing Institute (IMA). Permits are required from the Ministry of Agriculture for imports of animal products, animal by-products, and seeds. The Ministry strictly enforces the prior approval requirement (Decree 15 of May 18, 1967) for all imports of meat products, and imposes stringent phytosanitary requirements. IMA maintains a list of 39 agricultural products under import quota, and 19 products under import permit.

Importers of non-agricultural products must now register their products before distributing them or offering them for sale in Panama. These registration requirements changed dramatically from last year, when there was a six-month period during which the registration process could be completed. Importers no longer have the possibility of establishing product sales potential prior to investing time and resources in the registration process. Importers of U.S. food products have encountered significant phytosanitary barriers erected to protect domestic production of pork and beef.

6. Export Subsidies Policies

The June 1995 "Universalization Law" allows any company to import raw materials or semiprocessed goods at a duty of three percent for domestic consumption production, or duty free for export production. In addition, companies not receiving

benefits under the "Special Incentives Law" of 1986 will be allowed a tax deduction of up to 10 percent of their profits from export operations. This provision expires in 2002.

As part of its WTO accession process, Panama has revised its export subsidies policies. The tax credit certificate (CAT), which used to be given to firms producing non-traditional exports when the exports' national content and value-added both met minimum established levels, will be phased out gradually. The new policy allows exporters to receive CATs equal to 20 percent of the exports' national value-added, until 1997. From 1997 until 2000, the CATs decrease to 15 percent, and after the year 2000 CATs will be eliminated entirely. The Government has become stricter in defining national value-added, attempting to reduce the amount claimed by exporters. The certificates are transferable and may be used to pay tax obligations to the Government, or can be sold in secondary markets at a discount.

A number of industries which produce exclusively for export are exempted from paying certain types of taxes and import duties. The Panamanian Government uses this policy to attract foreign investment. Companies which benefit from these exemptions are not eligible to receive CATs for their exports.

7. Protection of U.S. Intellectual Property

The Legislative Assembly is currently debating a new Industrial Property Law, covering patents and trademarks, which is scheduled to be considered by the Legislative Assembly during the second quarter of 1996. These measures, if adequately enforced, could significantly improve very inadequate past GOP performance in the protection of intellectual property rights.

The Industrial Property law would establish a standard of 20 years of protection for all patent holders, in place of the current range of five to 20 years for Panamanians and five to 15 years for foreign nationals. The bill also would protect processes. The law would impose a working requirement on patent holders, although the patent holder can satisfy the working requirement by importing the product. Under the law, the Government would be able to issue compulsory licenses only after notice to and a hearing for the patent holder. A patent holder could 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 Industrial Property Law also would provide 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.

Panama passed Law No. 15 of August 8, 1994 to modernize its copyright protection regime; a 1995 decree, Decree 261, implements this law. The new copyright law, with implementing legislation, strengthens copyright protection, facilitates prosecution of copyright violators and makes copyright infringement a felony, punishable by fine and incarceration. The bill also protects computer software as a literary work. Panama still needs to establish and fund the new Copyright Directorate called for in Law No. 15 and create judicial expertise necessary to enforce the new law.

To date, video piracy has been a major concern in Panama. Some firms continue to reproduce and distribute videos illegally from the Colon Free Zone (CFZ) to Panama, Central America, and South America. U.S. firms have also complained about trademark infringement by firms in the CFZ and about use of the CFZ as a transshipment point for pirated products. GOP police authorities have raided several CFZ warehouses, in response to concerns about illegal transshipments and illegal assembly activity. But piracy continues on a wide scale and the GOP has not pursued the problem aggressively.

Panama's application to join the WTO is partly contingent upon having in place an effective intellectual property regime. This requirement compels the government to pass the Industrial Property Law promptly and to ensure that both it and the Copyright Law are enforced. The recently-passed "Anti-Monopoly Law" contains a provision for the creation of four commercial courts, which will have jurisdiction not only over anti-trust cases but patent, trademark, and copyright cases as well.

Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, the Paris Convention for the Protection of Industrial Property, and the Universal Copyright Convention, but it is not a member of the Berne Convention for the Protection of Literary and Artistic Works, or the Central American Copyright Convention.

8. Worker Rights

a. *The Right of Association.*—Private sector workers have the right to form and join unions of their choice, subject to registration by the Government. The labor code

reform package, which was signed on August 14, 1995, significantly increases worker's ability to establish unions. The reforms streamline the accreditation and registration process for unions and reduce the minimum size from 50 to 40 workers.

Previous practice saw the Government effectively deny registration of some unions, especially in "strategic" sectors such as banking and the Free Zone, by refusing to process union applications, largely because of artificial technicalities. The new labor code cuts the Government's required response time on applications from two months to fifteen days. In the event the Government does not respond within the time frame, the union will automatically be recognized and accorded all rights and privileges under Panamanian law.

The new labor code reforms addressed some long-standing concerns of the International Labor Organization (ILO). Labor leaders are no longer automatically ineligible to keep their union positions if they are fired from their jobs. In addition, the requirement that all labor leaders must be Panamanian citizens also has been dropped.

According to Ministry of Labor statistics, approximately 10 percent of the total employed labor force is organized. There are 257 active unions, grouped under six confederations and 48 federations representing approximately 73,300 members in the private sector. Neither the Government nor the political parties control or financially support any unions. Union organizations at every level may and do affiliate with international bodies.

The Civil Service Law of June 20, 1994, permits most Government workers to form public employees associations and federations and establishes their right to represent members in collective bargaining with their respective agencies. It also provides most workers the right to strike, except for 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. Public sector workers are lobbying the Government to have their associations accorded formal "union" status.

There were many private sector strikes in 1995, the most significant in August by a coalition of 49 unions led by the construction workers and banana workers against the Government's labor reform proposals. Most national confederations briefly joined this coalition to add pressure to the Government to adopt more labor-friendly legislation. The most militant labor unions, accounting for less than 20 percent of Panama's organized labor movement, campaigned aggressively against passage of a new labor code. Upon passage of labor code reform and its signing into law by the President, the militant workers ended their strike and returned to work. Militant labor leaders have chosen to take their objections to the new labor code to the courts to challenge its constitutionality.

b. *The Right to Organize and Bargain Collectively.*—The labor code affords most workers the right to organize and bargain collectively, and unions widely exercise it. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Ministry of Labor has mechanisms to resolve complaints against anti-union employers. The new Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike. The labor code establishes a conciliation board in the Ministry of Labor to resolve labor complaints and provides a procedure for arbitration.

Employers commonly hire temporary workers in order to circumvent onerous Labor Code requirements for permanent workers. Temporary workers do not receive pensions or other benefits. The practice of blank contracts is, according to union sources, becoming more widespread. The Government, in its new labor legislation, has taken steps to address this problem. All companies are now required to submit a copy of all labor contracts for permanent workers to the Labor Ministry. The Labor Ministry, in turn, is required to conduct periodic inspections of a company's workforce and review all contracts to ensure that they are in order. The authority for the Labor Ministry to levy fines against companies not in compliance with the law is also included in the new legislation.

c. *Prohibition of Forced or Compulsory Labor.*—The Labor Code prohibits forced or compulsory labor, and neither practice was reported.

d. *Minimum Age for Employment of Children.*—The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 if the child has not completed primary school; children under 16 cannot work overtime; those under 18 cannot perform night work. Children between the ages of 12 and 15 may perform farm or domestic labor as long as the work is light and does not interfere with the child's schooling. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment; however, the Government has not enforced child labor provisions in rural areas,

claiming insufficient staff. According to a recent ILO report, 11,600 children between the ages of 10 and 14 are in the labor force—primarily in farm or domestic labor.

e. *Acceptable Conditions of Work.*—The Labor Code establishes a standard work week of 48 hours and provides for at least one 24-hour rest period. It also establishes minimum-wage rates for specific regions and for most categories of labor. The minimum wage, last increased in November 1995, is $1.00 per hour in the districts of Panama, Colon, and San Miguelito, and for workers in financial services. It is not enough to support a family above the poverty level in Panama's relatively high-cost economy. Most Panamanian workers formally employed in urban areas earn the minimum wage or above, but most workers in the large informal sector earn below the minimum wage. Unions have repeatedly alleged that contractors operating in the Canal area pay less than the required minimum wage. The Ministry of Labor does not always enforce the minimum wage, due to insufficient human and financial resources.

The Government sets and enforces occupational health and safety standards. An occupational health section in the Social Security System is responsible for conducting periodic inspections of especially hazardous employment sites, such as those in the construction industry, as well as inspecting health and safety standards in response to union or worker requests. The law protects workers who file requests for health and safety inspections from dismissal. They also have the right to remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. They are generally not allowed to do so if the threat is not immediate but may request a health and safety inspection to determine the extent and nature of the hazard. The Ministry of Labor is responsible for enforcing health and safety violations and generally does so. The standards are fairly encompassing and generally emphasize safety over long-term health hazards, according to organized labor sources. Health problems, however, continue in the banana sector as well as the cement and milling industries.

f. *Rights in Sectors With U.S. Investment.*—Workers in the largest areas with U.S. investment are, on average, better paid and have better working conditions and training opportunities than those in sectors with little U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		806
Total Manufacturing		168
Food & Kindred Products	3	
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		663
Banking		(1)
Finance/Insurance/Real Estate		11,915
Services		122
Other Industries		(1)
TOTAL ALL INDUSTRIES		13,775

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

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

PARAGUAY

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1982 prices)	7,407	7,636	7,941
Real GDP Growth (percent)	4.1	3.5	4.0
GDP (at current prices)	6,841	7,694	8,120
GDP by Sector (percent of total):			
Agriculture	26.6	25.7	26.5
Energy and Water	4.1	4.8	4.7
Manufacturing	15.3	15.1	15.3
Construction	5.3	5.4	5.3
Financial Services	26.5	26.8	26.5
Other Services	9.4	9.4	9.5
Government, Health and Education	4.8	5.0	5.2
Net Exports of Goods and Services	−805.6	−566.7	−640.9
Real per capita GDP (US$, 1982 BPS)	1,595	1,625	1,670
Labor Force (000s)	1,652	1,670	1,686
Unemployment Rate (percent)	11.0	12.0	12.0
Money & Prices (annual percentage growth):			
Money Supply (M2)	27.2	23.5	28.6
Base Interest Rate[2]	39.6	39.7	40.4
Personal Saving Rate (pct GDP)	19.5	26.1	22.5
Wholesale Inflation	14.8	14.8	N/A
Consumer Price Index	20.4	18.3	11.5
Exchange Rate (Gs/US$)[4]	1,754	1,912	1,970
Balance of Payments and Trade:			
Total Exports FOB[3]	725.2	816.2	800.0
Exports to U.S.	50.3	80.2	84.6
Total Imports CIF[3]	1,477.5	2,140.4	2,820.0
Imports from U.S.	520.9	793.6	950.0
Aid from U.S.	4.4	5.3	5.7
External Public Debt	1,217	1,240.3	1,380.0
Debt Service Payments (paid)	233.0	222.2	240.6
Gold and Forex Reserves	697.7	1,044.1	1,137.0
Trade Balance[3]	−752.3	−1,324.2	−2,020.0
Balance with U.S.	−470.6	−713.4	−865.4

[1] 1995 figures are all estimates based on available monthly data in October 1995.
[2] Figures are actual, average annual interest rates, not changes in them.
[3] Merchandise trade. Export figures exclude unregistered re-exports.
[4] There is no official exchange rate in Paraguay.

1. General Policy Framework

While Paraguay has undergone a dramatic political and economic opening since 1989, the process is not complete. Interests and structures built up during the previous, closed system are obstacles to continued reform. The Wasmosy administration has pledged to push the political and economic reform process forward, and has some major achievements behind it, such as judicial reform, including the naming of a new Supreme Court; a macro-economic stabilization program featuring fiscal austerity which has weathered a financial crisis; and the successful privatization of the state airline and plans to sell off four smaller companies by the end of 1995. This effort has stalled as opposition to privatization in the Congress has made it impossible for the government to obtain the necessary authority to privatize the largest state companies. Efforts to privatize smaller enterprises are also frozen because of contractual problems with the consultants hired to oversee the process.

Key problems remain such as combating corruption (a recent financial scandal indicated its pervasive nature in both the pubic and private sector), strengthening protection of intellectual property and trying to blend a growing informal sector into the formal economy. Participation in MERCOSUR, the Southern Cone Common

Market, requires that the previously closed Paraguayan system learn to compete with aggressive entrepreneurs in neighboring states. MERCOSUR could also spell the end of the multi-billion dollar re-export trade to Brazil which serves as Paraguay's economic lifeline. This threat, and the ensuing projects in infrastructure aimed at creating a productive base in the country, could provide opportunities for foreign investors.

Infrastructural projects include the Asuncion Bay reclamation project (which is backed by the Inter-American Development Bank), the $2.4 billion Corpus hydroelectric project (to be financed by the private sector), and the development of a waterway (hidrovia) project linking Brazil, Bolivia, Paraguay, Argentina and Uruguay.

Paraguay's internal market is small, but its role as a regional distribution center, through the Ciudad del Este re-export trade, is important. This role, and its status as the region's lowest cost provider of electricity and labor, also offer opportunities for industries looking to enter the 200 million consumer MERCOSUR market. Industrial zones are already planned near the Brazilian border to take advantage of these opportunities.

Paraguayan imports of U.S. made products have increased steadily. According to the U.S. Department of Commerce, exports to Paraguay totaled $793 million in 1994 and could top $1 billion in 1995. 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. The U.S. maintains a healthy trade surplus with Paraguay.

Besides MERCOSUR, Paraguay is a member of the Latin American Association for Regional Integration (ALADI). Paraguay became a founding member of the World Trade Organization (WTO) on January 1, 1995.

2. Exchange Rate Policies

All foreign exchange transactions are settled at the daily free market rate. The Central Bank practices a dirty float, with periodic interventions aimed at stabilizing the Paraguayan currency, the guarani. Earnings from an estimated $5–6 billion per year cross-border trade with Brazil has overvalued the guarani by approximately 25–30 percent over the past six years. This has increased the attractiveness of U.S. exports. The market rate on January 12, 1996 stood at 1,966 guaranies to the dollar. It is legal to hold savings accounts in foreign currency, and in October 1994 a decree was promulgated that legalized 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. In an attempt to slow down inflation the government has continued applying austerity measures implemented in April 1994, including a stringent monetary policy, foreign exchange market interventions to prevent sharp fluctuations in the value of the guarani, and a tight rein on government investment that has generated a sizable budget surplus. As a result of these policies, the inflation rate is expected to be between 10–12 percent in 1995, down substantially from 1994's 18.3 percent.

The Ministry of Finance oversees all tax matters. With the implementation of a new tax system (Law 125/91), corporate incomes are subject to a 30 percent tax rate. There is no personal income tax. As an incentive to investment, the tax rate on reinvested profits is 10 percent. The existing investment promotion law (Law 60/90) includes complete exemption from start-up taxes and 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 continues to be low, primarily due to inadequate administration. As a result, approximately 60–70 percent of tax revenue comes from taxes on foreign trade.

4. Debt Management Policies

In 1992 the government reduced the external debt with both official and commercial creditors. The full payment of arrears was accomplished by drawing down reserves, without assistance from the International Monetary Fund (IMF) or the Paris Club of principal creditor nations. The Government of Paraguay currently has approximately $1.4 billion of debt. About half of the debt is to multilateral lending institutions, with the rest to Paris Club members. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. Significant Barriers to U.S. Exports

U.S. manufactured goods face strong competition from Asian and regional producers. The historic lack of transparency has also kept U.S. companies out of government procurement (bids are let on all purchases in excess of $60,000). The potential for U.S. computer software products is limited by widespread piracy.

In general, financing for industry is limited. High nominal and real interest rates, pushed upward by the speculative nature of the financial system are a major obstacle to the availability of medium and long term credit. Banks thus enjoy a wide margin (over 20 percent) between active and passive rates. The banking system experienced a crisis in mid-1995, when the second and third largest domestic banks folded after unregulated operations were exposed. The government bailout of the financial system cost approximately $300 million.

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

Infringement of trademarks and piracy is an endemic problem. The agency charged with overseeing the problem, the Ministry of Industry and Commerce, has an enforcement program, including raids on counterfeiting facilities, but is constrained by a lack of resources as well as legislation which limits its powers. The important re-export trade to neighboring countries has also driven the development of sophisticated networks of audio, video and software pirates as well as counterfeiters and trademark infringers.

The U.S. Government has ongoing discussions with the government on issues that must be addressed in order to establish an adequate intellectual property regime. The Inter-American Development Bank, through a contract with the World Intellectual Property Organization (WIPO), is also working closely with the Paraguayans on strengthening protection of intellectual property, as the second $30 million tranche of a $70 million investment sector loan is preconditioned on the introduction into the congress of modern IPR legislation (in accordance with TRIPs and WIPO guidelines). The four members of MERCOSUR have agreed to coordinate IPR policies after the initial integration stage, focused on trade harmonization, is completed.

Patents: The outdated patent law of 1925 established an Office of Patents and Inventions and the requirements and procedures for obtaining patents. Patents are granted for 15 years and may be renewed. In cooperation with the IDB and WIPO, the Government of Paraguay is preparing new patent legislation which it expects to present to the Congress early in 1996.

Trademarks: The illegal appropriation of well-known trademarks presents a serious problem, despite Paraguay's obligations under the Paris Convention and the WTO Agreement on Trade-related Intellectual Property Rights (TRIPs). The government has shown a willingness to work with companies in protecting famous trademarks, but the bureaucratic process of challenging a trademark is cumbersome. Legal recourse can also be sought through the courts, but the system's lack of transparency increases the difficulty of the process. Currently, there are over fifty U.S. companies tryirg to win back their trademarks. The firms estimate that their losses are in the millions of dollars. Estimates place the value of pirated audio/video products transiting through Ciudad del Este could top $100 million. Judicial reform begun in 1995, including the naming of a new Supreme Court, should improve that situation. The government, in cooperation with the IDB and WIPO, is preparing new legislation which will bring Paraguay's trademark practices into accord with its international obligations. The proposal is to be presented to Congress early in 1996.

Copyrights: In 1991, Paraguay became a signatory to the Berne 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 serious and increasing problem. Industry groups have placed the value of software piracy in the internal Paraguayan market at $10 million; the value of counterfeit software transiting though Paraguay to the larger Brazilian and Argentine markets increases these loses several times over. New copyright legislation is being drafted by the government with IDB and WIPO technical assistance. The proposal is expected to be submitted to Congress in early 1996.

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 former 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. *The 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. *The 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 for 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 on urban streets or 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		[1]
Total Manufacturing		9
Food & Kindred Products	3	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		[1]
Banking		[1]
Finance/Insurance/Real Estate		[2]
Services 0.		
Other Industries 0.		
TOTAL ALL INDUSTRIES 66.		

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

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

PERU

Key Economic Indicators

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1985 prices)	21,151	24,476	27,655
Real GDP Growth (percent)	5.6	13.0	7.5
GDP at Current Prices [1]	27,666	32,700	37,500
GDP by Sector:			
Agriculture	3,280	3,891	4,300
Fisheries	342	458	460
Mining and Petroleum	3,307	3,401	3,650
Manufacturing	6,075	7,554	7,950
Construction	1,974	2,780	3,700
Government	1,609	1,700	1,800
Commerce	3,831	4,578	5,400
Other	7,248	8,338	10,240
Net Exports of Goods and Services	−883	−1,217	−2,250
Real per capita GDP (US$, '85 BPS)	936	1,060	1,177
Labor force (thousands)	7,109	7,250	7,400
Unemployment (percent) [2]	9.9	8.8	8.5
Money and Prices (annual percentage change):			
Money Supply (M2) [3]	50.1	73.7	35.0
Discount Rate (year end) [4]	74.1	41.1	32.0
Consumer Price Inflation [2]	39.5	15.4	10.0
Wholesale Price Inflation	34.1	10.5	2.0
Exchange Rate (NS/US$, average)	1.99	2.20	2.25
Balance of Payments and Trade:			
Total Exports (FOB)	3,515	4,555	5,700
Total Exports to U.S.	718	727	900
Total Imports (FOB)	4,085	5,661	7,500
Total Imports from U.S.	1,008	1,312	1,745
Aid from U.S.	152	134	112
Aid from Other Countries	214	264	275
External Public Debt	22,424	23,751	24,750
Debt Service Paid [5]	886	915	1,000
Foreign Exchange Reserves	3,042	6,152	6,700
Merchandise Trade Balance	−570	−1,107	−1,800
Balance with U.S.	−290	−585	−845

Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor and Embassy estimates. 1995 figures are estimates.

[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] For Lima Metropolitan Area only.

[3] Figures are for money supply in national currency only. The majority of financial system liquidity consists of dollars.

[4] Annualized rate of interest commercial banks charge each other on loans denominated in soles. The rates on dollar loans are significantly lower.

[5] Does not include lump-sum payment of World Bank arrears in 1993.

1. General Policy Framework

Peru continued with its economic reform program in 1995, and the economy grew impressively, although not at the break-neck pace of 1994. Over the last five years, bureaucratic procedures have been streamlined, price controls terminated, the tax system simplified and strengthened, and labor laws made more flexible. Exchange controls have been lifted, and there are no restrictions on remittances of profits, dividends or royalties. The privatization program has encountered some delays, but the government expects to sell off all remaining state-owned firms by the end of 1996.

The economy continues to recover from the deep recession and hyperinflation of the late '80s and early '90s. Real GDP grew 13 percent in 1994 and will probably

grow 7–8 percent in 1995. Output in 1995 should exceed the pre-crisis peak. But unemployment and underemployment remain stubbornly high. Inflation continues to decelerate and is expected to come in at around 10 percent in 1995 (versus 15.4 percent in 1994 and 7,650 percent in 1990). GDP growth slowed markedly in the second half of 1995 as the government curtailed spending and tightened credit to prevent overheating. The government, following the recommendations of the International Monetary Fund, wants to reduce growth to a more sustainable 5–6 percent for 1996.

The average tariff rate has been cut to 16 percent, compared with 80 percent in 1990. This is well below Peru's Uruguay Round binding commitment of 35 percent. Currently, 95 percent of imports enter at 15 percent; the rest at 25 percent. This may change, however, if Peru decides to reintegrate itself into the Andean Pact free trade area and accept its common external tariff structure, with five bands ranging from 0 to 20 percent. The other members of the pact have set a deadline of January 31, 1996, for Peru to decide whether it will join the free-trade scheme, although similar deadlines have come and gone more than once since 1992. Meanwhile, a widening trade deficit is causing some industry groups to criticize the government's flat-tariff policy and demand greater protection.

The Central Bank manages the money supply and affects interest and exchange rates through open-market operations, rediscounts and reserve requirements on dollar and sol deposits. Dollars 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. Recurrent government expenditures have been in balance with revenues since late 1990, and the combined fiscal deficit (resulting from debt payment) has been financed by external sources. Over the last three years, a strong inflow of foreign capital, primarily from privatizations, has more than offset the merchandise trade deficit, and net foreign reserves have grown to more than $6 billion (they were negative in mid-1990).

Peru ratified the Uruguay Round trade agreements in late 1994 and became a charter member of the World Trade Organization in January 1995. President Alberto Fujimori, the patron of Peru's economic reforms, was elected to a second five-year term in April 1995 with a 64-percent majority. His followers won a dominant majority in the Congress. The economic program for the second term calls for increased social spending to reduce poverty, as well as for measures to increase domestic savings and boost exports.

2. Exchange Rate Policies

The exchange rate for the new Peruvian sol is determined by market forces, with some intervention by the Central Bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition of foreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the Central Bank.

During 1993–94 the currency appreciated by 12.3 percent in real terms, but has since depreciated by 2.6 percent from January-August 1995. Some industry groups have been pressuring the government to intervene to devalue the sol, but the government has thus far adhered to its laissez-faire policy.

3. Structural Policies

In the short span of five 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 three years. U.S. companies have participated heavily in these privatizations. By the end of 1996, 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 ports (ENAPU), the airport authority (CORPAC) and the remaining mining properties, including the largest, Centromin. A combination of political and economic factors caused the privatization program to be delayed in late 1994 and early 1995. But the program was back underway by the second half of 1995. Still, as of November 1995, the government had not announced details for the long-awaited privatization of Petroperu.

Price controls, direct subsidies and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the once corrupt and inefficient tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to around 14 percent in late 1995. Customs collections have more than tripled since the early '90s, 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 selective consumption taxes on certain items, such as automobiles. As a result, the total tax levied on an imported car, including VAT, excise 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. 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. There are exceptions for certain regulated industries, such as casinos, which require approval of the gaming commission. The 1993 constitution guarantees national treatment for foreign investors. However, many 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 1995 totaled $24.2 billion—roughly two-thirds of GDP. Total service payments on the debt in the first half of 1995 totaled $508 million, or 19 percent of merchandise exports for that period.

Peru cleared its arrears with the Inter-American Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank and negotiated an Extended Fund Facility with the IMF for 1993–95. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993 to March 1996 from $1.1 billion to about $400 million. The government plans to seek another Paris Club rescheduling in early 1996.

In October 1995, Peru reached an agreement with its commercial-bank creditors to restructure its debts under the Brady Plan. Peru had ceased making payments on its commercial bank debt in the mid 1980s. With accumulated interest, penalties and arrears, this debt had ballooned to more than $10 billion. Preliminary reports indicated that the deal involves a 45-percent reduction in principal and a 49-percent reduction in the interest. The remaining principal will be repaid over 30 years. Peru may also repurchase part of the debt via a Dutch auction. Past due interest will be repaid over 20 years. Payments will begin with a $291 million up-front payment in July 1996, to be financed by the international financial institutions. The precise impact on Peru's debt-service burden will not be clear until the individual banks choose from among the menu of repayment options. Earlier in 1995, the government reportedly repurchased about $1.5 billion of its commercial bank debt on the secondary markets. If true, Peru already retired about one third of its principal.

5. Significant Barriers to U.S. Exports

Almost all barriers to U.S. exports and direct investment have been eliminated over the past five years. There are no quantitative or qualitative ceilings on imports. Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in cocaine production); and ammonium nitrate fertilizer, which has been used as a blast enhancer for terrorist car bombs. The import of used clothing and shoes is prohibitted for health reasons, although donations of used clothing and shoes from abroad are allowed.

Although customs procedures have been simplified and the customs administration made more efficient in recent years, some importers still complain of delays in getting goods through customs. For example, one customs reform was to implement a system of preshipment inspections, through which private inspection firms evaluate all incoming shipments worth more than $2,000. The importer must pay up to 1 percent of the FOB value of the goods to cover the cost of the inspection. Importers complain that the inspection system further contributes to customs delays.

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 are calculated weekly, according to prevailing international prices for each commodity. The Peruvian government defends the surcharges as necessary to protect Peruvian farmers from subsidized international competition and cushion the effect of an overvalued sol and structural adjustment. In March 1993, the government agreed to phase out the surcharges over a three-year period as a condition for disbursement of an Inter-American Development Bank trade-sector loan. The government began reducing the surcharge levels in April 1994, with cuts scheduled to take place every six months until the surcharges were eliminated. Because of high international prices during 1995, surcharges were practically non-existent. Farmers, supported by the Agriculture Ministry, have been demanding higher surcharges. But the Finance Ministry has not heeded their complaints.

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 can receive rebates of the import duties and value-added tax on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat 5-percent rebate, subject to certain restrictions. Other policy measures to encourage exports are under discussion.

7. Protection of U.S. Intellectual Property

Intellectual property protection in Peru has improved in recent years but still falls short of U.S. standards in several areas. While enforcement has been stepped up, piracy remains widespread. Peru thus remains on the Special 301 watch list.

Peru is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention on Industrial Property, the Geneva Convention for the Protection of Sound Recordings and the Brussels Convention on the Distribution of Satellite Signals and is a member of the World Intellectual Property Organization. In December 1994, the Peruvian Congress ratified the Uruguay Round agreement on Trade-Related Aspects of Intellectual Property (TRIPs).

As of January 1, 1994, Peruvian law provides patent protection for all classes of inventions, except for animal species, materials derived from the human body, nuclear or other fusible materials or inventions deemed to be contrary to the public order or to the sustainable development of the environment. Through September 1995, 422 patents had been registered under the new law—more than 90 percent of them by foreigners. U.S. firms obtained 68 percent of patents issued in the first year. Peru does not provide transitional (pipeline) protection. Andean Pact Decision 344 on patents 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. Enforcement has improved in recent years at the administrative level, but 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. The Reebok case, which dates from 1986, went to the Supreme Court in late 1995, with a decision expected before the end of the year.

Copyrights are widely disregarded, but enforcement is improving. 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. Pirated computer software accounts for more than 80 percent of the market. The National Institute for the Defense of Competition and Protection of Intellectual Property (INDECOPI), established at the end of 1992, has conducted numerous raids over the last three years on large-scale software users, as well as on distributors of pirated software, books, videos and sound recordings. Much merchandise has been seized, administrative fines have been imposed, and cases have been handed over to the judiciary for prosecution. However, to date no criminal penalties have been imposed, and no pirates have been sent to jail. INDECOPI lacks the resources to deal with the scale of the piracy problem in Peru, and the police have not shown a willingness to attack the problem seriously. Still, INDECOPI claims that the level of piracy has been reduced as a result of its efforts.

Peruvian law does not protect semiconductor chip layout designs, but the Embassy is not aware of any infringement of integrated circuits or semiconductor chips. There have been complaints that some Peruvian television stations rebroadcast U.S. satellite signals without permission, but the practice does not appear to be widespread.

U.S. copyright interests estimate their annual losses due to piracy in Peru at $30 million—$11 million for software, $10 million for books, $7 million for sound recordings and $2 million for videos. This represents an improvement over 1993, when losses were estimated at $35 million. The U.S. industries have recently become more active in defending their interests in Peru by retaining local representation, conducting investigations and preparing complaints to be filed with INDECOPI.

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 7.4 million, only about 5 percent belong to unions. More than half are employed in the informal sector, beyond government regulation and supervision.

a. *The Right of Association.*—Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are not eligible for union membership. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal services contracts to prevent union affiliation. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, unions are prohibited by law from engaging in explicitly political, religious or profit-making activities.

b. *The Right to Organize and Bargain Collectively.*—Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by "force majeur" or economic conditions, with 15 days notice to employees. The Peruvian Congress approved a new employment law in June 1995 that union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions have filed a complaint about this new law with the International Labor Organization (ILO).

c. *Prohibition of 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 is beyond its control. In response to a complaint filed with the ILO, the government in 1994 acknowledged the existence of such practices and said it had taken measures to end them. But reports of forced labor continued to surface in 1995, including reports of children being forced to pan for gold in remote Madre de Dios Department.

d. *Minimum Age for Employment of Children.*—The minimum legal age for employment is 16. 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. A recent government study indicated that 8 percent of the workforce was between the ages of six and 14.

e. *Acceptable Conditions of Work.*—The 1993 constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal." No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector. The current minimum wage is 130 soles per month (about $58 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, and more recently in electrical generation. Labor conditions in those sectors compare favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		49
Food & Kindred Products	10	
Chemicals and Allied Products	23	
Metals, Primary & Fabricated	5	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		50
Banking		(1)
Finance/Insurance/Real Estate		0
Services		9
Other Industries		613
TOTAL ALL INDUSTRIES		836

[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]

	1993	1994	1995
Income, Production and Employment:			
Real GDP (1985 basis)[1]	3,827.6	4,007.5	4,147.8
Real GDP Growth (percent)	−1.2	4.7	3.5
GDP (at current prices)[2]	4,635.8	4,836.4	4,822.0
GDP by Sector:[2]			
qAgriculture	117.7	116.6	108.7
Petroleum	1,089.0	1,285.9	1,448.3
Manufacturing	425.7	419.3	445.1
Construction	354.4	361.5	437.5
Transport, Storage, and Communication	412.4	432.1	444.6
Finance, Insurance, and Real Estate	620.7	610.4	605.1
Distrib. and Restaurants	696.7	691.3	748.5
Government	517.7	488.2	504.0
Education and Cultural Services	167.9	159.7	164.9
Net Exports of Goods and Services	60.6	208.8	615.1
Real Per Capita GDP (US$)	3,056.9	3,187.4	3,282.5
Labor Force (000s)	504.6	509.3	520
Unemployment Rate (percent)	19.8	18.4	16.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	5.1	−1.8	2.0
Base Interest Rate[3]	15.50	15.88	14.0
National Savings to GDP Ratio	14.6	20.8	15.3
Retail Inflation	10.8	8.8	5.0
Wholesale Inflation	5.3	5.4	1.6
Consumer Price Index[4]	273.6	303.5	311.8
Exchange Rate (TT$/US$)	5.34	5.87	5.94
Balance of Payments and Trade:			
Total Exports FOB[5]	1,480.3	1,775.9	2,613.5
Exports to U.S.	742.2	858.9	1035.9
Total Imports CIF[5]	1,165.1	1,203.3	1,607.0
Imports from U.S.	546.2	544.1	798.2
Aid from U.S.	0.15	1.4	0.5
Aid from Other Countries	N/A	N/A	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995
External Public Debt	2,096.1	2,057.1	1,860.0
Debt Service Payments	617.9	586.3	469.8
Gold and Forex Reserves	446.0	678.9	778.7
Trade Balance[5]	315.2	572.6	1,006.5
Balance with U.S.	196.0	314.8	237.7

[1] GDP figures reflect the exchange rates applicable in each year. 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 US$1.00/TT$5.87. Exchange rate for 1995 is the average rate from Jan. 1 to Nov. 1, US$1.00/TT$5.94.
[2] 1995 nominal GDP and sectoral figures are Central Statistical Office estimates based on results of the first three quarters.
[3] Figures are actual, average annual interest rates, not changes in them.
[4] September 1982=100.
[5] 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. Much of the oil revenue windfall was used to subsidize state-owned companies and to fund expensive social and infrastructure projects, which became a drain on government finances. The oil wealth also fueled a dramatic increase in domestic consumption, and led to overvaluation of the currency with a resulting decline in non-oil exports. The collapse of oil prices in the 1980's and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only began recovering in 1994. Although recent structural reforms have begun to stimulate growth in non-hydrocarbon sectors, overall economic prospects remain closely tied to oil, gas and petrochemical prices and production.

Since January 1992, the government has moved decisively to lay the foundations for private-sector based, export-led growth and to turn its state-controlled economy into a market-controlled one. On April 13, 1993 the government removed currency controls, floating the Trinidad and Tobago (TT) dollar.

In 1992, it began a large scale divestiture program and has since partially or fully privatized 38 of 87 state-owned companies. In addition, the government has dismantled most trade barriers. Only a small number of products are still on a "negative list" (requiring import licenses), or are subject to temporary import surcharges. A five percent customs duty levied on imports of manufacturing inputs was lowered to 2.5 percent effective August 1995 and eliminated altogether in several categories.

The government has aggressively courted foreign investors, and on September 26, 1994, Trinidad and Tobago signed a Bilateral Investment Treaty with the United States which provides national treatment for U.S. investors. New U.S. investment in Trinidad and Tobago increased from $428 million in 1993 to approximately $660 million in 1994, and could top $1 billion in 1995.

The Government uses a standard array of fiscal and monetary policies to influence the economy, including a 15 percent value-added tax (VAT) and corporate and personal income taxes of up to 38 percent. Improvements in revenue collection since 1993 have boosted VAT, income-tax and customs duty revenues dramatically, resulting in a public sector budget surplus of about US$4.6 million in 1994, despite increased outlays.

Until 1995 the Central Bank relied on commercial bank reserve requirements to control the money supply, raising them as high as 20 percent. The Bank has now switched to open-market operations to control liquidity, which has been unusually high due to the substantial foreign direct investment. M1 grew by 10.6 percent in 1994 as opposed to 2.9 percent in 1993. However, through the first quarter of 1995, M1 contracted by 3.3 percent and inflation, which averaged 8.8 percent in 1994 is expected to drop as low as 5 percent by the end of 1995.

Trinidad and Tobago became a member of the World Trade Organization (WTO) on March 1, 1995.

2. Exchange Rate Policies

The exchange rate, which is loosely managed by the Central Bank, has stabilized at just under TT$6.00 to one U.S. dollar (the rate on January 12, 1996 was TT$5.71 to 1 USD). 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 to one US dollar since 1988. The Central Bank loosely manages the exchange rate through limited currency market interventions and regular consultations with the commercial banks. 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. While the fall in value of the TT dollar from its previous pegged rate of TT$4.25 to US$1.00 made U.S. imports less competitive, the dismantling of tariff and trade barriers and liberalization of the economy has more than compensated, with U.S. imports to Trinidad and Tobago rising by 9.5 percent in 1994.

3. Structural Policies

Pricing Policies: Generally, the free market determines prices. The government maintains domestic price controls only on sugar, schoolbooks, and pharmaceuticals.

Tax Policies: With the exception of goods originating within the Caribbean Common Market (CARICOM), most goods entering Trinidad and Tobago have been subject to varying rates of import duties, including customs duties, stamp taxes, excise taxes, import surcharges and value-added tax (VAT). Many of these charges have been reduced in 1994 and 1995. The stamp tax on imports has been eliminated as part of the policy of bringing import charges down to the CARICOM Common External Tariff (CET) level. The CET, in turn, is being reduced on a phased basis to reach 5 to 20 percent by 1998. Some raw materials and machinery in approved sectors are exempt from all customs duties, and more are being granted this exemption. Duties on manufacturing inputs were reduced across the board to 2.5 percent from 5 percent and eliminated in several categories. Import surcharges of from 20 to 60 percent (the latter on a very limited number of items) are still levied on a limited number of goods which were previously subject to quotas under the "negative list." These include most meats, milk and some fruits and vegetables. The surcharges will be progressively phased out by 1999.

The standard rate of VAT is 15 percent; however, many basic commodities are zero-rated. An excise tax is levied only on petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent. While the tax code does not favor foreign investors over local investors, profits on sales to markets outside CARICOM are tax exempt, which often benefits foreign firms.

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 and loans and rescheduled Paris Club debt. By October 1995 all but US$60 million of the original $355 million IMF loan had been repaid. From 1992 to 1994 debt-service payments averaged about $600 million per annum. They fell to under $580 million in 1994 and are expected to fall to $486 million in 1995. The government has met these payments by relying on bond issues, proceeds from the divestiture of state enterprises, loans from the Inter-American Development Bank (IDB), and higher tax proceeds stemming from improved revenue collection methods. As a result of this progress Moody's has raised Trinidad and Tobago's credit rating from BA2 to BA1, the third highest in the hemisphere (excluding the U.S. and Canada).

The debt service ratio fell from 32.9 percent in 1993 to 31.1 percent in 1994 and is expected to drop to approximately 25 percent in 1995. Total foreign debt in June 1995 stood at approximately US$2 billion, or 40 percent of GDP, down from a high of 59 percent of GDP in 1989. The improving debt service ratio has allowed the government more flexibility in lowering import duties and trade barriers, benefiting U.S. exports.

5. Significant Barriers to U.S. Exports

Tariffs: Trinidad and Tobago is highly import-dependent. Imported products cover a broad range of consumer and industrial goods, with the United States supplying 48 percent of the total in 1994. Only a limited number of items remain on the "negative list," thereby requiring import licenses. These include some seafood, livestock and meats, some oils and fats, some paper products, sugar, copra, left-hand drive vehicles, pesticides, and boats under 250 tons.

Foreign direct investment: The government encourages foreign direct investment. There are no de-factor restrictions on foreign investment, and the government is actively removing the few remaining disincentives. On September 26, 1994 the Government signed a Bilateral Investment Treaty (BIT) with the U.S., granting na-

tional 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. Both tax and non-tax 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.

Services: 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.

Government procurement: 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. Some government entities request prequalification applications from firms, then notify prequalified companies in a selective tender invitation. Trinidad and Tobago is not a signatory to the Uruguay Round plurilateral Agreement on Government Procurement.

Standards, labeling, testing and certification, to the extent that they are required, generally do not hinder U.S. exports. However, on one occasion in 1995, the Food and Drugs Division of the Ministry of Health held up shipments of U.S. canned vegetables by requiring new and non-customary certificates. 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 monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET.

Customs procedures: Customs operations are being restructured and streamlined with the help of U.S. Government advisors. A trade facilitation system (automated system for customs data) was adopted on January 1, 1995. Nonetheless, customs clearance can be time consuming because of bureaucratic delays. Local importers complain that it takes several working days to get import documents approved and their goods released.

6. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in Free Zones (Export Processing Zones) to encourage foreign and domestic investors. Such manufacturers are exempt from customs duties on capital goods, spare parts and raw materials imported into the free zone, and all corporate taxes on profits from manufacturing and international sales.

7. Protection of U.S. Intellectual Property

Few resources are currently devoted to the enforcement of intellectual property rights (IPR), a situation that is changing during the two-year phase-in period for compliance with provisions in the bilateral IPR Agreement signed with the United States September 26, 1994, and Trinidad and Tobago's commitments under the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). The bilateral IPR agreement will, in most instances, provide IPR protection equivalent to that in the U.S., and is part of the government's drive to attract more U.S. investment to Trinidad and Tobago. Legislation is being currently updated in patent, trademark and copyright law, and for the protection of trade secrets and industrial designs. The failure of existing laws to provide for minimum statutory damages, recovery of legal costs, and criminal penalties for willful infringement undermines the deterrent value of existing legislation.

Patents: 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 expiration 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. Trinidad and Tobago is a signatory of the Paris Convention for the Protection of Industrial Property.

Copyrights: Trinidad and Tobago is a member of the Universal Copyright Convention, Revised; and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication. It is also a party to the Berne Convention, Paris Act of 1971, 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 Berne 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.

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, arguing that since these services are not officially for sale in Trinidad, they are not stealing them. The HBO and Cinemax networks have now appointed an agent in Trinidad to collect fees.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, U.S. copyright holders are the most heavily affected by the lack of copyright enforcement, although the market is relatively small. By signing the bilateral IPR agreement, the government has acknowledged IPR infringement is a deterrent to additional U.S. investment in Trinidad and Tobago and appears committed to improving both legislation and enforcement.

Trademarks: 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.

8. Worker Rights

a. *The Right of Association.*—The right of association is respected in law and practice. Union membership is declining, with less than 30 percent of the work force now belonging to the 14 functioning unions. The unions are independent of government or political party control and freely and vocally represent their members' interests. There are no excessive or arbitrary registration requirements, nor restrictions on selection 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. The same laws apply in the Export Processing Zones.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports that it is practiced.

d. *Minimum Age for Employment of Children.*—Legislation prohibits the employment of children under the age of 12, and children aged 12 to 14 are permitted to work only in family businesses. General employment is permitted after age 14.

e. *Acceptable Conditions of Work.*—There is no unified national minimum wage. The government has set minimum wage standards in 53 job categories ranging from US$26 to US$57 per week. These rates were intended to be adjusted for cost-of-living increases, but this has not occurred. 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		511
Total Manufacturing		(1)
Food & Kindred Products	8	
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—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	3	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		11
Services		1
Other Industries		(1)
TOTAL ALL INDUSTRIES		817

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

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

URUGUAY

Key Economic Indicators

[Millions of U.S. dollars unless otherwise noted][5]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1983 prices)[2]	6,983.0	7,338.0	7,411.0
Real GDP Growth (percent)	2.5	5.1	0.5
GDP (at current prices)[2]	13,453	15,453	17,736
GDP by Sector:			
Agriculture	1,122.7	1,269.0	1,596.2
Energy and Water	356.4	441.3	532.1
Manufacturing	2,550.2	2,781.1	3,281.2
Construction	681.3	821.5	798.1
Rents	2,178.0	2,690.8	3,015.1
Financial Services	1,370.3	1,498.4	1,773.3
Other Services	3,641.1	4,636.0	5,143.8
Government, Health and Education	1,553.0	1,467.9	1,596.2
Net Export of Goods and Services	−70.0	−145.9	−130.0
Real per capita GDP (US$, 1983 prices)	2,218	2,317	2,303
Labor Force (000s)	1,395	1,409	1,423
Unemployment Rate (percent)	8.3	9.2	11.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	49.7	37.3	32.0
Base Interest Rate[3]	39.6	37.0	36.0
Personal Saving Rate[3]	17.2	16.1	20.5
Retail Inflation	52.9	44.1	37.0
Wholesale Inflation	31.1	41.0	27.4
Consumer Price Index	52.9	44.1	37.0
Exchange Rate (peso/US$):			
(interbank sell rate)	26.9	26.9	26.9
Balance of Payments and Trade:			
Total Exports FOB[4]	1,645.3	1,913.4	2,300.0
Exports to U.S.	148.8	130.0	200.0
Total Imports CIF[4]	2,325.7	2,772.6	3,050.0
Imports from U.S.	222.6	259.6	310.0
Aid from U.S.	1.2	1.0	1.1
Aid from Other Countries	N/A	N/A	N/A

Key Economic Indicators—Continued

[Millions of U.S. dollars unless otherwise noted][5]

	1993	1994	1995[1]
External Public Debt	4,292.6	4,605.1	4,950.0
Debt Service Payments (paid)	645	665	715
Gold and Forex Reserves (net)	1,201.8	1,432.1	1,480.0
Trade Balance[4]	−679.1	−859.2	−750.0
Balance with U.S.	−73.8	−129.0	−110.0

[1] 1995 figures are all estimates based on available monthly data in October 1995.
[2] GDP at producer price.
[3] Figures are actual, annual average interest rates, not changes in them (six month term deposits).
[4] Merchandise trade.
[5] Data in Uruguayan pesos was converted into U.S. dollars at the average interbank selling exchange rate for each year (1993: 3.95; 1994: 5.05; 1995: 6.39).

1. General Policy Framework

Uruguay has a small, open economy. The historical basis of the economy has been agriculture, particularly livestock production. Agriculture remains important both directly (wool, meat and rice) and indirectly for inputs for other sectors (textiles and leather goods). Industry, which has diversified beyond agro-industry into chemicals and consumer goods for local consumption, has declined in the face of greater competition, and it now accounts for 20 percent of GDP. The service sector, particularly tourism and financial services, now dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

The government was relatively successful in reducing its fiscal deficit from 7.4 percent in 1989 to a small surplus in 1992. However, the deficit reemerged in 1993, grew to 2.9 percent of GDP in 1994 and reached 3.4 percent of GDP by March 1995. 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, which peaked at 129 percent in 1990, declined to 44 percent in 1994.

In November 1994, Dr. Julio Maria Sanguinetti of the Colorado Party was elected President. The new government, which took office in March 1995, is in the process of implementing a three-stage stabilization program consisting of: a) an immediate fiscal adjustment package focused mainly on industrial tax incentives and increased payroll and consumption taxes; b) a medium-term program for government downsizing; and c) a long-term program for social security reform to address one of the main sources of the deficit. A fiscal adjustment law to implement the tax measures of the stabilization program went into effect in May 1995. The social security reform legislation was approved by Congress in September 1995 and is to be gradually implemented beginning in April 1996. The reduction of the fiscal deficit through social security reform will take at least ten years and will require long-term foreign financial assistance during the transition period. The medium-term program for a major restructuring of government is part of the Sanguinetti Administration's five-year budget submission which passed the Chamber of Deputies in October and is currently undergoing Senate review.

By the end of July 1995 the public sector deficit had decreased to about 2.3 percent of GDP. The inflation rate remained relatively stable from May 1994 through September 1995, fluctuating at an annual rate of between 41 and 45 percent. September and October rates of inflation were exceptionally low. Should this trend continue through November and December, total 1995 inflation could be as low as 37 percent.

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.

The International Monetary Fund (IMF) approved the Uruguayan government economic program for the twelve-month period ending in March 1996. The program will be subject to the IMF staff monitoring procedure.

2.Exchange Rate Policies

The Uruguayan government allows the peso to float against the dollar within a declining seven percent band. The band currently declines by two percent per month. The Central bank regularly buys and sells dollars to keep the peso's value

within the band. At the end of 1994, inflation outpaced the official devaluation of the peso by 16 percentage points, making Uruguayan exports less competitive and imports more attractive.

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for transactions 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 import tariffs) for its general revenue. A substantial social security tax, up 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 1993, which has had a positive effect on U.S. exports to Uruguay. Tariff rates declined to zero percent for most Mercosur (Southern Cone Common Market composed of Argentina, Brazil, Paraguay, and Uruguay) products on January 1, 1995; a common external tariff (CET) entered into effect on imports from non-Mercosur countries ranging (with some exceptions) between zero and 20 percent.

4.Debt Management Policies

As of March 1995, Uruguay's total external debt was $8.6 billion, almost $800 million over the amount in March 1994. Of this, $4.7 billion was public sector debt, and $3.9 billion represented debts of the private sector. The public sector external debt included $1.7 billion of dollar-denominated Uruguayan government bills and bonds, $320 million of foreign currency deposits of nonresidents, $2.2 billion of long-term loans of the nonfinancial public sector and $155 million of supplier credits. The balance, amounting to $281 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 $2.2 billion.

The $3.9 billion private sector foreign debt was primarily made up of $2.5 billion of foreign currency deposits by nonresidents and $459 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 $3.5 billion resulting in a net private sector foreign debt of $412 million.

The debt service in 1994 was $800 million, equivalent to 41.8 percent of total merchandise exports, 23.2 percent of combined merchandise and service exports and 5.1 percent of GDP.

5. Significant Barriers to U.S. Exports

Law No. 16,671 signed on December 13, 1994 ratified the Uruguay Round agreements. Uruguay is a founding member of the WTO.

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process which can take years. Bureaucratic delays also add to the cost of imports, although importers report that a "de-bureaucratization" 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 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 private sector electric power generation. The state-owned natural gas company was privatized in late 1994. Cellular telecommunications are operated by both private consortia and the state-owned phone company (ANTEL). The legislative decision to privatize ANTEL was overturned by referendum in 1992.

Government procurement practices are well defined, transparent and closely followed. Tenders are generally open to all bidders, foreign and domestic. In the past year, however, several important government tenders appear to have been awarded

to non-U.S. companies based on other than objective criteria such as price and quality. A government decree also established that local products and services that are of equal quality to foreign goods and services, and no more than ten percent more expensive, shall be given preference. Among foreign bidders, preference will be given to those who offer to purchase Uruguayan products. Uruguay has yet to sign the GATT/WTO government procurement code.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between zero and twenty percent. Most imports from MERCOSUR member countries enter free of duty. The only exemptions to tariff regulations, in the context of anti-dumping legislation, are reference prices and minimum export prices, fixed in relation to international levels and in line with commitments assumed under WTO. These are aimed at neutralizing unfair trade practices that threaten to damage national production activity or delay the development of such activities and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect.

6. Export Subsidies Policies

The government provides a nine percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports. This subsidy is to be reduced by three percentage points by January 1, 1996. Uruguay is a signatory of the GATT/WTO 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. Uruguayan law adequately protects most intellectual property rights except with regard to new technology and pharmaceuticals. 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/WTO.

The government does not discriminate between foreign and domestic patent holders. Owners and assignees of foreign patents may register patents in Uruguay, provided application is made within three years of registration in the country of origin. Registered patents are protected for ten years, less the period of protection already enjoyed in the country of origin. Licensing is not mandatory. Pharmaceuticals and chemical products are not patentable, although production processes for such products are patentable. The lack of patent protection for pharmaceuticals has had a marked effect on U.S. trade and investment in the sector.

Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for ten years initially and is renewable.

Uruguay affords copyright protection to, inter alia, books, records, videos and software. Despite legal protection, enforcement of copyrights for software is still weak and pirating of software is substantial. Software suppliers have estimated that losses due to pirating are in excess of $10 million. There is also considerable pirating of videotapes and music cassettes. The International Intellectual Property Rights Alliance estimates trade losses from copyright piracy of books, motion pictures, sound recordings and musical compositions at over $9 million.

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.*—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 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		9
Total Manufacturing		88
Food & Kindred Products	71	
Chemicals and Allied Products	6	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	9	
Wholesale Trade		59
Banking		125
Finance/Insurance/Real Estate		30
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		315

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

VENEZUELA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	72.2	69.8	70.1
Real GDP Growth (percent)[3]	−0.4	−3.3	0.4
GDP (at current prices)[2]	59.8	55.8	70.6
GDP by Sector:			
Agriculture	2.8	2.6	3.3
Energy/Water	14.1	14.3	18.1
Manufacturing	9.8	9.0	11.4
Construction	4.4	3.1	4.0
Rents	4.7	4.4	5.5
Financial Services	1.6	1.5	1.8
Other Services	17.5	16.1	20.3
Government/Health/Education	5.0	4.9	6.1
Net Exports of Goods & Services	−1.9	4.1	4.6
Real Per Capita GDP (US$-'85BPS)	3,468	3,265	3,205
Labor Force (000s)	7,546	8,027	8,540
Unemployment Rate (percent)	6.3	8.5	13.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	25.7	54.8	35.1
Base Interest Rate[4]	65.3	60.2	40.3
Personal Saving Rate[4]	54.7	33.5	23.0
Retail Inflation	45.9	70.8	50.0
Wholesale Inflation	47.4	89.5	41.0
Consumer Price Index (1984=100)	1,302.9	2,095.3	3,310.5
Exchange Rate (Bs/US$—annual average):[5]			
Official	91.2	148.9	170.0
Parallel	91.2	158.8	240.0
Balance of Payments and Trade:			
Total Exports (FOB)[6]	14.0	15.7	17.8

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exports to U.S. (CV)	8.1	8.4	9.7
Total Imports (FOB)[6]	11.1	7.7	8.4
Imports from U.S. (FAS)	4.6	4.0	4.6
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	26.8	26.3	25.3
Debt Service Payments (paid)	5.3	5.1	5.5
Gold and Foreign Exchange Reserves	12.7	11.5	9.0
Trade Balance[6]	2.9	8.0	9.4
Trade Balance with U.S.[6]	3.5	4.3	5.1

[1] Figures for 1995 are U.S. Embassy estimates based on information available in October 1995.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Figures are actual, average annual interest rates, not changes in them.
[5] Venezuela adopted a fixed, single exchange rate of 170 bolivars to the dollar on July 11, 1994. The parallel rate is the effective exchange rate resulting from the trading of Brady Bonds on the Caracas Stock Exchange.
[6] Merchandise trade.

1. General Policy Framework

Venezuela's potential as a market for U.S. business remains positive over the long-term, although prospects for 1996 have been dampened by uncertainty over the country's macroeconomic stability. Since mid-1994, the Venezuelan Government has taken a number of interventionist measures, including foreign exchange and price controls, in response to two years of economic recession and a financial crisis, which developed in early 1994 and has yet to be totally resolved. This reverses a trend begun in 1989 toward loosening government controls. Measures have been introduced to end capital flight, soak-up excess liquidity, rein in inflation, stabilize the financial sector and open the petroleum sector to joint ventures with foreign firms. The Venezuelan Government's interventionist efforts have not succeeded and the government has begun negotiations with the International Monetary Fund in order to obtain financial support.

Venezuela is rich in natural resources, including petroleum, natural gas, hydroelectric power, iron ore, coal, gold, and bauxite. The petroleum industry still dominates Venezuela's economy accounting in 1994 for roughly 23 percent of the country's GDP, 71 percent of export earnings, and around 52 percent of central government revenues. However, tax revenues from the petroleum sector as a share of GDP declined substantially in recent years as international petroleum prices in real terms fell and non-oil revenues increased. As a result, oil revenues are expected to provide less than 50 percent of total government revenues in 1995.

After several years of solid economic growth, Venezuela's economy went into recession in 1993 with real GDP declining by 1 percent. The recession deepened in 1994 with output falling another 3.3 percent. GDP is expected to register 0.4 percent growth in 1995, due primarily to increased activity in the petroleum sector.

The financial sector collapse, which began in early 1994, affected over 50 percent of the commercial banking sector deposit base. The government has intervened in 18 financial institutions, nationalizing 9 commercial banks and closing 8 others plus one financial group. The Venezuelan government's bailout of the financial sector led to a 15.2 percent deficit on a consolidated public sector basis in 1994. For 1995, the government is trying to close a central government administration budget deficit of around 8 percent and an 11 percent deficit on a consolidated basis. The government's policy to finance the deficit is not clear. It plans to finance about $870 million domestically. The government is also exploring options in international financial markets, which it had not been able to access since late 1993. In late November 1995, however, with discussion on an IMF program underway, the government was able to proceed with a 3-year 500 million DM issue. The Venezuelan government hopes that international financial markets will be more receptive to its offerings of government securities if it completes a stand-by agreement with the International Monetary Fund.

Inflation has remained stubbornly high, principally as a result of large capital injections by the government into the banking sector. Despite Central Bank efforts to soak up excess liquidity through 82and 172-day monetary stabilization certificates, and the government's imposition of price and foreign exchange controls in mid-1994,

the country experienced an inflation rate of nearly 71 percent in 1994, up from 45 percent the previous year. Notwithstanding continued price controls, the government is projecting an inflation rate for 1995 of approximately 53 percent. Monetary liquidity is expected to fall about 15 percent in real terms for 1995 owing to the economic recession, negative real interest rates, the fall in demand for bolivars, the lack of attractive government securities, and the drop in the country's level of international reserves.

2. Exchange Rate Policies

Lack of confidence in Venezuela's economy prompted a run on the local currency in late April 1994, which resulted in an almost $3.8 billion drop in international reserves for the first half of 1994 and a maxi-devaluation of the bolivar. In response, the Venezuelan government suspended foreign exchange operations on June 22, 1994 and on July 11 established a system of foreign exchange controls with a fixed exchange rate of 170 bolivars to the dollar.

The Foreign Exchange Regime Law, which codified Venezuela's foreign exchange controls, came into effect on June 17, 1995. Importers, exporters, private and commercial debt holders, and foreign investors must register with the respective competent authority prior to submitting applications for foreign currency to the Office for Technical Administration of Foreign Exchange (OTAC). The sale of foreign exchange for imports valued at less than $5,000 or originating from countries belonging to the Latin American Integration Association (ALADI) is exempt from prior OTAC approval. Exporters may use foreign currency earned from export sales for expenses, prior to selling any excess to the Central Bank.

The official exchange rate for commercial transactions has remained fixed since mid-1994. However, on June 16, 1995, the government established a parallel foreign exchange market by approving the trading (in bolivars) of government debt bonds denominated in dollars (Brady Bonds) on Venezuelan capital markets. In late October, the government revised its exchange rate policy again, linking a new separate exchange rate for tourism to the parallel rate.

By the last quarter of 1995, inflationary expectations and continued balance of payments problems were exerting intense pressure for a devaluation. As of the end of October, the bolivar exchanged at the official rate was estimated to be overvalued by 42 percent, as compared to the parallel market rate. A significant drop in international reserves led the government to restrict availability of foreign exchange through the Central Bank beginning in early September. Authorizations for foreign exchange were suspended, except for essential medicines and basic food products. Foreign exchange applications approved prior to the suspension were disbursed in installments, with no guarantees against devaluation. As a result, many were forced to use the parallel Brady Bond market to obtain dollars for imports, debt payments, and repatriation of dividends.

3. Structural Policies

In 1995, the Venezuelan Government continued to apply the mix of heterodox measures it had adopted in 1994 to address the economic recession and collapse of the financial sector. Controls over foreign exchange, and prices for a variety of goods (primarily essential goods such as foods and medicines) and services (parking, funeral services, laundry and dry cleaning, and cinemas) remained in effect. Cumbersome government regulations for obtaining foreign exchange continued to disrupt previously established commercial relationships for the private and public sector.

The Venezuelan Government announced a major opening of the petroleum sector to private investment in July. The opening enables national and foreign investors to participate through "strategic associations" with the national oil company, PDVSA, in the production of light and medium crudes, for the first time since nationalization of the oil industry in 1976. However, no progress was made on reforming the severance pay system or trimming the public sector. Little success was also achieved in reducing government participation in the economy through privatization of state enterprises, although the groundwork has been laid for more ambitious privatization efforts in 1996.

The Venezuelan Tax Administration, reformed in 1994, is also stepping up efforts to improve tax collection and hopes to reduce tax evasion from over 70 percent in 1994 to 60 percent in 1995. As a result of a major income tax reform in 1994, the maximum tax rate for individuals and corporations rose from 30 to 34 percent. Venezuelan tax law does not differentiate between foreignand Venezuelan-owned companies, except in the petroleum sector. Hydrocarbon revenues of PDVSA and the new strategic associations are subject to a tax rate of 67.7 percent. In addition, the production of strategic associations will be subject to a 16.67-percent royalty. Companies engaged through joint ventures with PDVSA in the production and process-

ing of off-shore natural gas and extra-heavy crudes and bitumens are taxed at the lower 34-percent rate.

The government imposes a one percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustments for depreciation and inflation. The assets tax is deductible for income tax purposes. An investment tax credit is also available for the purchase of capital goods to be used in manufacturing processes. A "wholesale" tax is applied at both the wholesale and import levels on goods and services. The wholesale tax rate was increased from 10 to 12.5 percent for fiscal (calendar) year 1995. Certain goods are also assessed a luxury tax which varies by product between 10 and 20 percent.

On September 10, 1995, the Venezuelan Government took a small step toward addressing a long-standing distortion in the price of domestic gasoline. A tax was levied on higher octane gasolines, raising their prices substantially, while a lid was kept on the price of lower octane gasoline and diesel fuel. Despite the adjustment, the domestic price for gasoline remains well below the cost of production, and increased government revenues from the move are expected to contribute little to closing the government's budget gap.

Venezuela has reduced its import tariff levels since its accession to the General Agreement on Tariffs and Trade (GATT) on September 1, 1990. With ratification of the Uruguay Round in December 1994, Venezuela became a founding member of the World Trade Organization (WTO). As part of the Uruguay Round negotiations, Venezuela agreed to lower its bindings on tariff rates for most imports from 40 to 35 percent over a five-year period. On February 1, 1995, Venezuela implemented the Andean Pact's Common External Tariff, with a four-tier tariff structure of 5, 10, 15, and 20 percent. Under the Andean Pact's Common Automotive Policy, assembled passenger vehicles are an exception to the 20-percent maximum tariff rate on industrial products and are subject to a 35-percent tariff rate. The Andean Pact priceband system for agricultural imports came into effect in Venezuela on April 1, 1995. The country's average import tariff on a trade-weighted basis is roughly 10 percent.

4. Debt Management Policies

As of December 1994, Venezuela's public sector external debt totaled $26.3 billion. This included $17.6 billion in commercial bank debt rescheduled in 1990 within the context of the Brady Plan and $8.7 billion in nonrestructured debt (including commercial bank debt, military promissory notes, and bilateral and multilateral financial institutions). Medium-term private sector debt totaled an estimated $5.5 billion. External debt represents about 57 percent of GDP. In 1994, Venezuela's debt service payments totaled about $3.6 billion, or approximately 20 percent of total exports. Debt service payments for 1995 are estimated to reach $3.6 billion, or 20 percent of total exports.

Relations with commercial creditors have deteriorated because foreign exchange controls have limited the amount of dollars available for servicing external debt. In addition, the high inflation rate has increased the cost of servicing debt. Due to the downgrading of Venezuelan debt, the cost of borrowing has risen.

The government is currently negotiating a stand-by agreement with the International Monetary Fund to address Venezuela's fiscal and monetary problems and gain access to financial resources which might then be used to recapitalize the financial sector, downsize and reform the public sector, and supplement international reserves to facilitate a liberalization of the foreign exchange controls. It is unclear when an agreement might be reached. The World Bank and Inter-American Development Bank currently provide some multi-year project and sector lending and may expand their loan programs if Venezuela reaches a formal agreement with the IMF.

5.Significant Barriers to U.S. Exports

Import Licenses: Although Venezuela no longer has an import licensing regime, sanitary and phytosanitary certificates from the Ministries of Health and Agriculture are required for most agricultural and pharmaceutical imports. The requirement is used aggressively by the Ministry of Agriculture, in effect banning U.S. poultry and pork imports. As a WTO member, Venezuela is a party to the WTO Import Licensing Agreement.

Service Barriers: Foreign professionals working in disciplines which are covered by national licensing legislation (e.g. attorneys, security services, architecture and engineering, medical professions, veterinary practice, economists, business administration/management and accounting), and journalists must revalidate their title at a Venezuelan university and pass the associated professional exam.

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: Foreign investment is restricted in the petroleum sector. Hydrocarbon exploration, exploitation, refining, transportation, storage, and sales (foreign and domestic) are controlled by the Venezuelan Government and its entities. However, 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 from a joint session of congress. The strategic associations approved by the Venezuelan Congress in mid-1994 are an example of such arrangements.

Venezuela also limits foreign equity participation in enterprises engaged in television, radio, Spanish language press, and the professional services noted above under "Service Barriers" to 19.9 percent. The level of foreign investment is unrestricted in other sectors of the economy. However, the Government of Venezuela retains wide discretionary power to declare a sector as "basic," and to impose a 49 percent ceiling on foreign investment in the sector's companies. Foreign investors in the mining sector seeking to secure a concession from the government are subject to Venezuela's 1944 Mining Law and a complex set of executive decrees to secure a concession from the government.

Venezuela adheres to the Andean Pact Common Automotive Policy, which sets minimum regional content requirements for automotive assemblers. The country's 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.

The 1992 Presidential Decree 2095 guarantees the right of foreign investors to repatriate dividends and capital, and permits shares of foreign companies to be publicly sold. However, since the imposition of foreign exchange controls, the repatriation of profits has been difficult. Initially, problems were attributed to difficulties in establishing and implementing procedures. In late 1995, delays in receiving foreign exchange for repatriation of dividends and capital were linked to government efforts to bolster declining international reserves.

Government Procurement Practices: The 1990 Law of Tenders, its associated regulations, and modifying decree of 1991 establish three classifications for government procurement, based principally on the value of the goods and services being procured: general tenders, selective tenders, and direct purchases. For general and selective tenders, the law states that for offers that are within a "reasonable" range of each other for similar conditions, preference will be given according to criteria including national content, labor impact, national value-added, local participation, and technology transfer. For the purchase of goods, the government also applies a policy, not stated in the Law of Tenders, that local goods be purchased, unless the price of such products is 25 percent more than the landed cost of competing foreign products. In the petroleum industry, PDVSA is required to purchase national materials and supplies. However, PDVSA is permitted to make foreign purchases if domestic firms cannot meet quantity, quality, or delivery requirements. In addition, imported materials supplied by local representatives of foreign manufacturers are classified as "domestic purchases." Firms that supply PDVSA must register with PDVSA's unified suppliers register or with the unified contractors registry. The United States has consulted with Venezuela concerning the implementation of its Law of Tenders. Venezuela is not a signatory to the WTO Government Procurement Agreement.

Customs Procedures: Customs clearance procedures are time consuming, and delays can occur if documents are not in order. As a member of the WTO, Venezuela is a party to WTO agreements on preshipment inspection, rules of origin, and customs valuation.

6. Export Subsidies Policies

Venezuela has reduced the number and type of export incentives, but has retained a duty drawback system which provides exporters with a partial duty rebate on imported inputs. The current system was established under Finance Ministry resolution 2603, dated June 10, 1994. The duty drawback is calculated by means of a formula which takes into account the exporter's production efficiency. Rebate ceilings have been set for each productive sector. The rebate, which is expressed as a percentage of the export free-on-board (FOB) price, is given in the form of a Certificados de Reintegro Tributario (CERT), denominated in local currency. CERTs are negotiable and transferable, 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 exporter's 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 has made improvements in its protection of intellectual property rights, but does not yet appear to provide adequate and effective protection. As a result of its laws and practices, Venezuela remains on the Special 301 watch list. The United States and Venezuela have consulted frequently and intensively on intellectual property rights, including several rounds of negotiations toward a bilateral agreement. The Venezuelan Congress is currently considering new patent and trademark legislation which may improve enforcement efforts. In several recent, high-profile decisions (i.e., Hola, La Gallerie LaFayette, and Nintendo cases), Venezuela's Supreme Court has established a precedent for providing special protection to internationally "famous" trademarks.

Venezuela is a member of the World Industrial Property Organization (WIPO) and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the World Trade Organization TRIPs agreement. Venezuela 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.

Patents: Andean Pact Decisions 344 and 345, which became effective in Venezuela as of January 1, 1994, are comprehensive and offer a significant improvement over previous standards of protection for patents and trademarks in the Andean Pact countries. For example, they provide a patent term of 20 years, reversal of the burden of proof in cases of alleged patent infringement, and allow each member of the Andean Pact to improve its own respective patent law. The portions of the Decisions covering protection of trade secrets and new plant varieties are generally consistent with world class standards for protecting intellectual property rights. The Decisions are faulty, however, since they include compulsory licensing provisions, working requirements, and restrictions on biotechnology inventions. In addition, the Decisions deny pharmaceutical patent protection for medicines listed on the World Health Organization's Model List of Essential Drugs, and they lack provisions concerning transitional ("pipeline") protection, and protection from parallel imports. The Decisions also fail to address procedures for enforcing intellectual property rights.

Trademarks: Decision 344 improves protection for famous trademarks, prohibits the coexistence of similar marks, and provides for cancellation of trademark registrations based on "nonuse" or "bad faith." However, problems remain with Venezuela's trademark application process. Current procedures enable local pirates to produce and sell counterfeit products, despite their involvement in lengthy opposition proceedings. Trademark piracy is common in the clothing, toy, and sporting goods sectors and enforcement remains poor.

Copyrights: Venezuela's 1993 Copyright Law, and the complementary Andean Pact Decision 351, are modern and comprehensive and have substantially improved protection of copyright products in Venezuela. Venezuela's national law extended copyright protection to all creative works, including computer software. The law is being used aggressively by private concerns to combat piracy. In October 1995, the Venezuelan government established a National Copyright Office, which is to play a key role in enforcement efforts.

Computer software and videotape piracy, however, is still rampant. A local association of computer program companies estimated in 1994 that 72 out of every 100 programs used in the country was pirated. Unauthorized reception and retransmission of U.S. satellite signals and services is also widespread. 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. Video piracy reportedly has increased dramatically due to Venezuela's unsteady economic environment. Piracy has also been encouraged and competitiveness of legitimate product diminished by imposition of a 20 percent luxury tax applicable to video cassettes.

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 1994. Piracy of computer programs accounted for the largest losses ($77 million), followed by motion pictures ($20 million) and books ($20 million), and records and music ($6 million). Comprehensive estimates for losses due to patent and trademark infringement were not available. However, at least one company estimates that it has lost over $170 million due to trademark piracy in Venezuela since 1987.

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 13 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 monthly wage rate of Bs 15,000 and a national rural minimum monthly wage rate of Bs 12,000 ($88 and $74, respectively, at the official exchange rate of BS 170 to $1). To this should be added mandatory bonuses which for most minimum wage workers amount to Bs 13,000 ($76) per month. 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 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 for infractions.

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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		212
Total Manufacturing		1,536
Food & Kindred Products	372	
Chemicals and Allied Products	296	
Metals, Primary & Fabricated	72	
Machinery, except Electrical	46	
Electric & Electronic Equipment	26	
Transportation Equipment	334	
Other Manufacturing	396	
Wholesale Trade		295
Banking		(1)
Finance/Insurance/Real Estate		85
Services		(1)
Other Industries		772
TOTAL ALL INDUSTRIES		2,978

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP	46,500	45,900	47,920
Real GDP Growth (percent)	−2.6	−1.1	4.4
GDP by Selected Sectors:			
Agriculture	5,700	4,383	5,303
Energy and Water	N/A	10,428	10,600
Manufacturing	N/A	5,278	5,220
Construction	N/A	5,131	5,336
Services	15,700	11,048	11,490
Real Per Capita GDP (US$)	1,750	1,690	1,700
Labor Force (millions)	6.45	6.70	6.95
Unemployment Rate (percent)	23.0	24.3	25.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	21.2	17.0	14.7
Base Interest Rate (percent)	20.0	22.0	24.0
Consumer Price Index	20.8	29.0	28.5
Exchange Rate (dinars/US$):			
Official	23.4	36.0	48.0
Parallel	72.0	65.0	60.0
Balance of Payments and Trade:			
Total Exports (FOB)	10,410	8,890	9,730
Exports to U.S.	1,711	1,664	1,650
Total Imports (CIF)	8,200	9,200	10,200
Imports from U.S.	898	1,191	720
External Public Debt	26,349	29,600	32,000
Debt Service Payments (paid)	8,900	4,410	4,865
Gold and Forex Reserves	1,475	2,674	2,600
Trade Balance	2,210	−310	−470
Balance with U.S.	−813	−473	−930

[1] Embassy and Government of Algeria estimates.

1. General Policy Framework

The Algerian market presents significant commercial opportunities to U.S. exporters. Algeria has major new oil and gas reserves being readied for nearby export markets, and U.S. technology and know-how are highly prized. While the hydrocarbons sector is already a big market for U.S. exports, there are other large markets for U.S. goods and services in Algeria. The government has broadly deregulated the trade sector. Higher export earnings and debt payment reschedulings have provided banks with much more foreign exchange to finance imports. Algeria has a rapidly growing population, and the infrastructure of its cities is in desperate need of improvement. In addition, its broad industrial sector often employs antiquated technologies. Thus, over the medium and long term, Algeria should be a large and expanding market for U.S. exports of food, machinery, modern services and investment capital.

During 1995, however, U.S. exports to Algeria declined about a third from 1994 levels. Lack of American supplier credits placed many U.S. exporters at a disadvantage in competition with European firms. In addition, new Algerian oil and gas field investment slowed, hindering imports of equipment to the sector in which U.S.-Algerian commercial ties are strongest.

In the near term, Algeria's domestic consumption will not rise quickly, as the government plans to maintain tight fiscal and monetary policies in conjunction with IMF-backed reform programs. The 1995 government budget deficit was less than two percent of gross domestic product, down from nine percent in 1993. The government especially sought to limit increases in spending, which in turn slowed some investment projects. Taxes were also raised, including luxury import duties. Monetary policy in Algeria remains very rudimentary. The government started selling bonds to help finance its deficit, but total sales remained relatively small. Most of the government deficit is financed from borrowings from the central bank, the Bank of Algeria. The Bank of Algeria controls monetary growth primarily with bank-by-bank lending limits. Interest rates are fixed by the government. In late 1995 borrowing rates stood at 21–22 percent.

High interest rates have slowed new private investment in Algeria, as has lower real levels of government capital expenditures. In addition, the unstable security environment adds another perceived investment risk. As a result, the private business sector in Algeria rarely undertakes projects which do not promise payback within a few years.

2. Exchange Rate Policy

While the dinar is not yet fully convertible, the government allows importers access to foreign exchange. Private and publicly owned importers may buy foreign exchange from the five commercial banks for any commercial transaction provided they can pay for the hard currency in Algerian dinars. (Many importers do not have the dinar liquidity, however.) The commercial banks buy their foreign exchange from the Bank of Algeria at regular weekly auctions. These auctions set the price of the dinar. By late 1995 the dinar rate had appreciated slightly after discounting for inflation. The Bank of Algeria plans to allow interbank trading of hard currency by 1996, and the dinar may become fully convertible by 1997.

3. Structural Policies

The government over the past two years has changed major aspects of its regulatory, pricing and tax policies as part of its overall structural adjustment program. The government has largely released its previous tight hold on most state-owned company procurement, production and pricing decisions and instead provides local managers more autonomy. (At the same time, the treasury is providing them less emergency financing to cover bad business decisions.) The government continues to subsidize a handful of sensitive food prices, most notably flour and milk. As a result, no private importers have sought to import these commodities. These subsidies are to be lifted in 1996.

The government has cut its budget deficit, and it has raised a series of value-added tax rates and import duties, especially on luxury goods. The government has simplified its import duty schedule to three basic rates applied to most foodstuffs, semi-finished and finished products. The highest duty rate now is eighty percent. The government plans to join the World Trade Organization in 1996, and it has announced it will lower import duty rates as part of its application. In addition, the government has announced it hopes to reduce tax evasion by lowering personal income tax rates.

4. Debt Management Policies

Following conclusion of an IMF Standby Agreement in March 1994, and a subsequent three year extended fund facility in April 1995, the Algerian government rescheduled as much of its $32 billion dollar foreign debt as possible. The government thus has succeeded in reducing its debt service payments as a share of export earnings from 82 percent in 1993 to 45 percent in 1995. The most important debt accord reached in 1995 was a $7.5 billion rescheduling of payments due to the Paris Club countries between 1995 and 1998. Notably, Algeria obtained special consideration in this agreement with the rescheduling of some interest payments. In addition, the government concluded a $3.2 billion rescheduling agreement with London Club bankers in May 1995 which allows the Bank of Algeria to delay payments until 2000.

The Algerian central bank estimates the 1995 reschedulings alone saved it some $3.6 billion, enabling Algeria to finance a 15 percent increase in imports from 1994 levels. The government projects imports will continue to rise about six percent annually for the remainder of the decade. Notably, although imports have grown sub-

stantially, the Bank of Algeria's foreign exchange reserves have also climbed from $1.3 billion in 1993 to $2.6 billion in 1995. Assuming Algeria maintains a satisfactory performance under its IMF-backed extended fund facility, the 1996 and 1997 tranches of debt rescheduling should enable Algeria to keep its debt service as a share of export earnings to under fifty percent until the end of the decade.

Algeria continues to receive official credits from France, Spain, Italy, the European Union and from the U.S. Department of Agriculture's GSM Program. The government's structural adjustment program aims to increase export revenues substantially by the end of this decade. Petroleum and gas export earnings are projected to climb from $8.8 billion in 1994 to about $10.6 billion in 1996, and non-hydrocarbon exports are projected to climb to about $700 million. Algeria will need increased export earnings to help maintain balance of payments viability when rescheduled debt payments are due. By 1998 debt payments likely will increase from $5.1 billion in 1995 to $7.7 billion, and the payment burden will continue to grow for several years thereafter.

5. Significant Barriers to U.S. Exports

Algeria has fully deregulated its merchandise trade regime. There are no longer required import licenses, and the only import categories subject to restrictions are firearms, explosives, narcotics and pork products, which are prohibited for security or religious reasons. Moreover, the government imposes no particular testing, labeling or certification requirements other than quality control on imported foods and drugs. The Ministry of Health does require an authorization for distributors to market imported drugs. In addition, pharmaceuticals must have been marketed in their country of origin before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, should be labeled in Arabic and French, but in practice this regulation is not widely enforced. The central administration has officially simplified import clearance procedures, but the clearance process remains burdensome and time-consuming in some locales.

The government has deregulated some service sectors as well, notably the insurance and banking industries. Air couriers are allowed to operate in Algeria subject to approval with the Algerian Ministry of Post and Telecommunications (PTT). One American air courier company now has delivery service in several Algerian cities. The PTT has a monopoly on all telecommunications services. The production, importation and distribution of equipment, however, are allowed.

There are no significant barriers or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law govern investments in those two sectors. Production sharing agreements are routine. A 1993 investment code broadly deregulated the investment regime in other sectors.

The Algerian government's procurement practices have no adverse affect on U.S. exports. The government does use countertrade practices or laws to encourage local products.

6. Export Subsidy Policies

About 97 percent of Algeria's export revenues come from oil and natural gas exports. The government does not provide these or non-hydrocarbons exports with direct subsidies. Despite recent rate hikes, electricity remains subsidized, providing an implicit subsidy to producers. However, the dinar remains somewhat overvalued (its official rate is still slightly above the parallel rate). Thus, the dinar rate is an implicit tax on Algerian exporters. The government has indicated that it plans to adopt new measures to encourage non-hydrocarbons exports in 1996. One idea under consideration is the establishment of a state-owned bank to provide competitive financing for such exports.

7. Protection of U.S. Intellectual Property

Algeria is a member of the World Intellectual Property Organization (WIPO) and several major international conventions on IPR including the Universal Copyright Convention (UCC), the Paris (industrial property) Convention and the Lisbon (appelation of origins), Madrid (suppression of false origin) and Nice (registration of marks) Agreements. Algerian legislation protects intellectual property. Its enforcement is adequate, and there have been no reports of cases of infringement, counterfeiting or piracy.

Patents: Patents are protected by the law of December 7, 1993 and administered by the Institute Algérien de Normalisation et de Propriété Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

Trademarks: Trademark protection is afforded by the laws of March 19, 1966 and of July 16, 1976. In 1986, authority for granting and enforcement of trademark protection was transferred from INAPI to the Centre National du Registre du Com-

merce (CNRC). INAPI sources indicate that a new law is under consideration which would transfer trademark authority back to INAPI.

Copyrights: An April 1973 Algerian law provides copyright protection for books, plays, musical compositions, films, paintings, sculpture and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. A new law is being drafted to update the 1973 law to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had no apparent adverse effect on U.S. trade. There are reports on losses to U.S. firms on export or investment opportunities due to imported or locally produced counterfeit or pirated goods.

8. Workers Rights

a. *The Right of Association.*—Workers may form and be represented by trade unions of their choice. Government approval for the creation of a union is required. Unions may not affiliate with political parties or receive funds from abroad, and the government may suspend a union's activities if it violates the law. Unions may form and join federations or confederations, and they have affiliations with international labor bodies.

b. *The Right to Organize and Bargain Collectively.*—A 1990 law permits collective bargaining for all unions, and this right has been freely practiced. The law also prohibits discrimination by employers against union members and organizers, but there have been instances of retaliation against strike organizers. Unions may recruit members at the workplace.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor has not been practiced in Algeria and is incompatible with the constitution.

d. *Minimum Age for Employment of Children.*—The minimum employment age is 16 years, and inspectors can enforce this regulation. In practice, many children work part or full-time in small, private workshops and in the informal sector.

e. *Acceptable Conditions of Work.*—The 1990 law on work relations also defines the overall framework for acceptable conditions of work, but it 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 work week and a government decree regulates occupation and health standards.

f. *Rights in Sectors With U.S. Investment.*—Nearly all of the U.S. investment in Algeria is located in the hydrocarbons sectors. Algerian workers in that sector enjoy all of the rights defined above. Workers at American firms enjoy higher standards of salary and safety than do workers in the economy as a whole.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		51
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		3
Services		0
Other Industries		−3
TOTAL ALL INDUSTRIES		51

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

BAHRAIN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
GDP (at current prices)	4,555	4,505	4,685
GDP Growth (nominal, percent)	3.1	−1.8	−0.9
Per Capita GNP (US$)	8,530	8,376	8,292
Labor Force (000s)	212	221	231
Unemployment (percent)	15	15	15
Money and Prices (annual percentage growth):			
Money Supply (M2)	5.5	5.6	6.1
Prime Interest Rate (percent)	6.1	6.5	6.0
Savings Rate (percent)	3.0	3.0	3.75
Consumer Price Inflation	3.9	0.9	3.0
Consumer Price Index (1983/4=100)	101.1	103.0	106.1
Exchange Rate (US$/dinar)	2.65	2.65	2.65
Balance of Payments and Trade[2]			
Total Exports (FOB)	3,675.6	3,174.7	3,212.8
Non-Oil Exports to U.S.	109.4	165.5	189.8
Total Imports (CIF)	3,811.2	3,561.6	3,287.4
Non-Oil Imports from U.S.	653.1	443.2	464.4
Aid from Other Countries	50.0	50.0	50.0
Aid from U.S.	0	0	0
External Public Debt	N/A	N/A	N/A
Debt Service	N/A	N/A	N/A
Gold and Forex Reserves	1,300.0	1,170.0	1,050.0
Trade Balance	−135.6	−386.9	−74.6
Non-Oil Balance with U.S.[3]	−543.7	−277.7	−274.6

[1] 1995 figures are all estimates based on data available in October 1995.
[2] Trade figures are for merchandise trade.
[3] Excluding imports of military items and civilian aircraft.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies which affect demand for U.S. exports, can best be described as laissez faire. Except for 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 past two decades, the Government of Bahrain has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a regulatory framework which has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute over 55 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. The largest source of the government's oil revenue comes from Bahrain's 100,000 barrel/day share of the offshore Abu Sa'afah field, which is shared with and operated by Saudi Arabia.

The budgetary accounts of the central government are prepared on a biennial basis. The budget for 1995 was approved in December 1994. Budgetary revenues consist primarily of receipts from oil and gas, supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes and

thus does not use its tax system to implement social or investment policies. In 1994, revenue was $1.59 billion and expenditures were $1.79 billion. The resulting $200 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. Revenue for 1995 is projected to be $1.38 billion and expenditures are projected to be $1.70 billion. The projected $320 million deficit will also be financed through the issuance of treasury bills. The 1996 budget also was released in December 1994, but it projects a budget surplus of $16 million.

The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date ("repos"). Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has no legal authority to fix interest rates, it has published recommended rates for Bahraini dinar deposits since 1975. In 1982, the BMA instructed the commercial banks to observe a maximum margin of one percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989, the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar certificates of deposit (CD's) at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange-Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the Bahraini dinar and the U.S. dollar at the rate of one U.S. dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates in addition to Bahrain). In addition to according duty free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiations of 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 officially in the Arab League economic boycott against Israel, but last 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 taxes are assessed. Aside from customs duties, including a tax on gasoline, a ten percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates are imposed.

4. Debt Management Policies

The Government of Bahrain follows a policy of strictly limiting its official indebtedness to foreign financial institutions. 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 United Arab Emirates, foreign nationals are not permitted to purchase land in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits.

Government procurement practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministries of Works and Agriculture, and of Power and Water, extend invitations to selected, prequalified firms. Likewise, construction companies bidding on government construction projects must be registered with the Ministry of Works and Agriculture. Smaller contracts are handled by individual ministries and departments and are not subject to prequalification.

Customs procedures: The customs clearance process is used to enforce the primary boycott of Israel. While goods produced by formerly blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance, and the process of removing firms from the blacklist has become almost automatic, upon application by the subject firm. Bahraini customs also enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may only be imported by that agent, or, if by a third party, upon payment of a commission to the registered agent.

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 duty free importation of raw material inputs for incorporation into products for export and 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 World Trade Organization.

7. Protection of U.S. Intellectual Property

Bahraini piracy of U.S. intellectual property, including audio and video cassettes and computer software, is a serious problem. Not only are pirated video and audio tapes produced and sold in Bahrain, but they were also being exported to other countries in the region, at least until recently.

Currently, virtually as soon as films are released to theaters in the U.S., copies appear in Bahrain. Some of these originate as hand-held videocamera recordings made during theater performances; others are copied from promotional cassettes or from pay-tv programs. Films which legitimately have been released on video or laser disc also provide the originals for higher quality videos, but normally without payment of additional royalties.

Although Bahrain has long been the Gulf's leader in patent and trademark protection, its 1993 copyright law is seriously deficient. The law does not give explicit protection to sound recordings. Similarly, it explicitly protects only those foreign works "first published in Bahrain" and works of Arab authors who are citizens of states that have ratified the Arab Convention for the Protection of Authors. The law does, however, explicitly extend copyright protection to computer programs, and it includes a definition of such programs. A "Copyright Protection Office" (CPO), set up in the Ministry of Cabinet Affairs and Information acts, in practice, more as a barrier to than as an agent for copyright protection. The CPO, as well as the Ministry, has said that the office's sole role is to register intellectual property works and to provide verification of registration; the CPO, like the Government of Bahrain in general, has no active role in actually enforcing copyrights. Copyright holders are responsible for filing and pursuing private lawsuits against any copyright infringements.

The CPO is so inadequately staffed, and has adopted such complex and expensive registration requirements, that in its first nine months of existence, it registered only five copyrights (movies, computer programs, and books combined, but no sound

recordings). In the following nine months (through the end of September 1995) it issued 28 more copyrights. Given the CPO's insistence that each work must be registered individually, rather than as part of the collective works of a recording, publishing, or film company, current procedures cannot register, let alone protect, the thousands of U.S. works which are produced each year.

The United States has long urged Bahrain to adhere to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, and to a lesser extent, the Universal Copyright Convention (UCC). In February, Bahrain joined the World Intellectual Property Organization (WIPO), and the Bahraini Cabinet has approved, in principle, adherence to the Berne Convention and the Geneva Phonograms Convention. However, the GOB has not yet signed either those conventions or the UCC. Now that Bahrain has joined the General Agreement on Tariffs and Trade, signed the Uruguay Round of the GATT, joined the World Trade Organization, and, in the process, signed the "Trade-Related Intellectual Property Standards" (TRIPS), it must bring its IPR laws into conformity with international standards.

8. Worker Rights

a. *The Right of Association.*—The partially suspended 1973 Constitution recognizes the right of workers to organize, but western style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union." In response to labor unrest in the mid-1950's and in 1965 and 1974, the government passed a series of labor regulations which, among other things, allow the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLC's) established by ministerial decree. Between 1981 and 1984, 12 JLC's were established in the major state-owned industries. In 1994, four new JLC's were established in the private sector, including one in a major hotel. In 1995 free elections were held for representatives to the General Committee of Bahrain Workers (GCBW), which oversees the activities of the JLC's. Workers from all walks of life in Bahrain were elected to the body in 1995, including Sunni and Shi'a Muslims, expatriates, and, for the first time, a woman. Further expansion of the JLC system into the tourism and banking sectors is under active consideration.

The JLC's are composed of equal numbers of appointed management representatives and worker representatives elected from and by company employees, and each committee is chaired alternately by the management and worker representative. The selection of worker representatives appears to be a fair process, and worker representatives appear to genuinely represent worker interests. Under Bahraini law the Ministry of Interior may exclude worker candidates with criminal records or those deemed a threat to national security. The elected labor representatives of the JLC's select the eleven members of the GCBW, established in 1983 by law, which oversees and coordinates the work of the JLC's. The GCBW also hears complaints from Bahraini and foreign workers and assists them in bringing complaints to the attention of the Ministry of Labor or to the courts. Although the government and company management are not represented on the GCBW, the Ministry of Labor closely monitors the body's activities and must approve the distribution of GCBW funds (raised by government taxes on employers) and the rules and procedures of the GCBW.

The JLC-GCBW system represents nearly 70 percent of the island's indigenous industrial workers, although both government and labor representatives readily admit that nonindustrial workers and expatriates are clearly underrepresented within the system. The Ministry of Labor and Social Affairs has publicly urged the formation of JLC's in all public and private sector companies employing more than 200 workers. Although 67 percent of the Bahraini work force is expatriate, expatriates are underrepresented in the work of the GCBW. Expatriate workers can and do participate in JLC elections, and five expatriates currently serve on JLC's. None, however, currently sit on the board of the GCBW. It is a long term goal of both the government and the GCBW to replace expatriate workers with Bahrainis throughout all sectors of the economy and to create new jobs for Bahrainis seeking employment.

Bahraini Labor Law is silent on the right to strike, and there were no strikes in 1995. Strikes with political overtones were repressed by the government in the 1960's and early 1970's. Actions perceived to be detrimental to the "existing relationship" between employers and employees or to the economic health of the state

are forbidden specifically by the 1974 Security Law. There are no recent examples of major strikes, but walkouts and other job actions have been known to occur without government intervention and with positive results for the workers.

The GCBW represents Bahraini workers at the International Labor Organization and in the Arab Labor Organization, but does not belong to any international trade union organizations.

b. *The Right to Organize and Bargain Collectively: Bahraini Labor Law neither grants nor denies workers the right to organize and bargain collectively. While the JLC's described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.*

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compel foreign workers from developing countries to perform work not specified in their contracts, as well as Labor Ministry responses. Once a complaint has been lodged by a worker, the Labor Ministry opens an investigation and often takes action.

d. *Minimum Age for Employment of Children.*—The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors in the industrial sector; child labor outside that sector is less well monitored, but it is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work.*—Bahrain's Labor Law, enforced by the Ministry of Labor, mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Minimum wage scales, set by government decree, exist for both public and private sector workers. Complaints brought before the Labor Ministry which cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the Court and Labor Law are generally considered to favor the worker. The law provides protection for both Bahraini and expatriate workers. However, all foreign workers are required to be sponsored by Bahrainis or Bahrain-based institutions. Foreign workers, particularly those from developing countries, are often unwilling to report abuse for fear of losing residence rights and having to return to their native countries. In addition, the Labor Law specifically favors Bahrainis, followed by Arab expatriates, over all other workers in the areas of hiring and firing. Women are generally paid less than men, and are prohibited from working at night, except in certain exempt 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, the Bahrain National Gas Company, and the Bahrain Aviation Fuelling Company. There are also joint venture factories producing plastic bottle caps, tissues, and pipes. Workers at all these companies enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		57
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)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	(2)
Finance/Insurance/Real Estate	(1)
Services	(1)
Other Industries	0
TOTAL ALL INDUSTRIES	140

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EGYPT

Key Economic Indicators

[Millions of Egyptian Pounds (LE) unless otherwise noted][1]

	1993	1994	1995
Income, Production and Employment:[2]			
Real GDP (1991/92 prices)[3]	134,335	139,638	145,850
Real GDP Growth Rate (percent)	2.5	3.9	4.4
Nominal GDP by Sector:			
Agriculture	22,220	23,072	23,716
Industry/Mining	22,360	23,295	24,800
Petroleum/Related Products	13,210	14,345	14,484
Electricity	2,296	2,398	2,497
Construction	6,800	7,079	7,448
Transportation	9,060	9,334	9,795
Suez Canal	5,800	5,778	5,863
Trade	22,350	23,260	24,320
Finance	4,680	5,080	5,450
Insurance	79	85	92
Tourism	2,525	2,055	2,350
Housing	2,452	2,568	2,713
Public Utilities	426	459	495
Social Insurance	92	97	102
Government Services	9,740	10,120	10,535
Personal Services	10,245	10,613	11,190
Per Capita GDP (current LE)	2,380	2,425	2,472
Labor Force (000s)	15,571	16,013	16,452
Unemployment Rate (percent)	10.1	9.8	9.6
Money and Prices:			
Money Supply (M2)	121,792	136,894	N/A
Bank Lending Rate (percent)[4]	19.36	17.39	15.37
Bank Saving Rate (percent)[4]	15.17	12.02	10.18
Consumer Price Index (pct.)[4]	11.1	9.1	9.4
Wholesale Price Index (pct.)	N/A	N/A	N/A
Exchange Rate (US$/LE):			
Free Market Rate[4]	0.332	0.337	0.339
Balance of Payments and Trade (millions of U.S. dollars unless otherwise noted):[5]			
Total Exports (FOB)	3,417	3,065	N/A
Exports to U.S.[5]	466	664	594
Total Imports (CIF)	10,728	10,716	N/A
Imports from U.S.[5]	3,087	2,763	2,844

Key Economic Indicators—Continued

[Millions of Egyptian Pounds (LE) unless otherwise noted][1]

	1993	1994	1995
Trade Balance	−7,312	−7,651	N/A
Trade Balance With U.S.[5]	−2,622	−2,099	−2,250
Aid from U.S.:			
(US FY, Obligations)[5]	2,382	2,062	2,057
External Public Debt	29,300	30,000	N/A
Debt Service Payments (paid)	2,300	2,000	N/A
Gold and FOREX Reserves	11,293	13,377	14,010

[1]Primary sources are Egyptian and U.S. Government official data and IMF International Financial Statistics. Egyptian fiscal year is July-June.
[2]1993/94 figures of Income, Production and Employment are preliminary while 1994/95 figures are projected.
[3]Real GDP are factor cost figures based on 1991/92 prices.
[4]Lending, saving and exchange rates are average estimates. 1994/95 figures cover the period July 1994 through end December 1994. Consumer price index figures are also average estimates.
[5]Trade figures between Egypt and the United States as well as aid figures are based on calendar years.

1. General Policy Framework

Egypt is instituting economic reforms to reduce the role of the state in the economy and increase reliance on market mechanisms. In a series of economic reforms beginning 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 four years, a stable Egyptian pound (LE) exchange rate against the U.S. dollar and high interest rates have reduced the economy's dependence on the U.S. dollar and fed a steady growth in the money supply. While the macroeconomic stabilization program has been successful, the government has proceeded more cautiously in key areas of structural reform such as trade policy and privatization. Four years into the economic reform program, international financial institutions and donors are concerned that the government's low-key approach to structural reform will hamper economic growth.

The Egyptian government has taken tentative steps toward privatization of the public sector, which represents approximately 70 percent of industrial production. The government claims to have sold approximately LE 5.7 billion ($1.7 billion) in assets to date. Despite these claims, outright sales have been few and share flotation, a method now favored by the government, has been hampered by the weakness of the long dormant stock exchange. Further, many important public sector companies are not candidates for privatization, including the airline (Egypt Air), the telecom industry (ARENTO), and the public electric company (EEA). Trade reform has been significant, but domestic industry remains protected by relatively high tariff rates and nontariff import barriers. Import bans on most commodities were eliminated in 1993 and the maximum tariff rate was reduced from 80 percent to 70 percent (with a few exceptions) in 1994.

In September 1994, President Mubarak and Vice President Gore announced the Egyptian-U.S. Partnership For Economic Growth And Development. The Partnership is designed to provide for greater business input in the formulation of Egyptian economic policy and to focus and elevate the political engagement in bilateral civilian assistance projects. Moreover, this Partnership ties into two other regional initiatives, the Taba Group and the European Union-Mediterranean Negotiations. In November 1996, Egypt will host the third Middle East and North Africa Economic Summit. Such regional activities promise significant trade opportunities for U.S. exporters.

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 trading partner. U.S. exports to Egypt in 1994 totaled $2.8 billion. Annually approximately $200 million worth of exports are financed through USAID's Commodity Import Program, $400 million through various USAID projects and about $160 million under Department of Agriculture programs (GSM/102). A substantial portion of the $1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

Egypt became a World Trade Organization (WTO) member in June 1995.

2. Exchange Rate Policies

In November 1991, Egypt adopted a free market exchange rate 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 reduced the stock of dollars in the economy. Central Bank foreign exchange reserves stand at $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. U.S. exports will also be enhanced by increased demand and expected future reductions in trade restrictions. However, the stable exchange rate, which has not been depreciating even with annual inflation rates of 8–9 percent, has eroded Egypt's export competitiveness.

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 pharmaceutical product price controls, 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 under government control, domestic petroleum product prices have increased to about 88 percent of international prices (June 1993) and electricity prices to about 79 percent of long run marginal costs. The government heavily subsidizes electricity prices sold to aluminum and fertilizer factories, which are public sector industries. 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 lowest rate was maintained at five percent. The government has failed to meet its commitment to further reduce the maximum customs 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 a "service fee" surcharge of three and six percent (depending on the customs duty on the imported item), which reversed much of the benefit of the customs rate reduction. Although the World Bank complained, the government fell short on its pledge to the World Bank to abolish this surcharge by July 1995. In addition to the customs tariff, a sales tax ranging between five and 25 percent is added to the final customs value of imported items. Assembly industries may benefit from lower customs 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.

In May 1991, the government instituted a General Sales Tax (GST), at first applicable at the import and manufacturing level. The government was reluctant to develop the GST into a full value added tax in 1995 as previously scheduled, due to lower than anticipated growth rates. 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. Egypt has been working since 1992 on a unified corporate tax; however, the new law is not expected to affect Egypt's generous tax holiday scheme.

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. To date, the Paris Club has released 2 tranches. The U.S. Government forgave $6.8 billion of high-interest military debt

and the Gulf States wrote off more than $7 billion. As a result, Egypt's total outstanding medium and long term debt has declined to about $34 billion. The debt service ratio has been reduced from 46 percent to around 17 percent. Egypt has eliminated 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 $17 billion). In September 1993, the IMF announced an extended fund facility of SDR 400 million ($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 early 1994, the Paris Club postponed release of the final tranche of debt relief due to the lack of satisfactory IMF review of Egypt's economic reform program. The two sides will resume discussions in January 1996.

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, which represent approximately four percent of total production: poultry, fabrics and apparel. The government 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, but had not done so as of November 1995. For food and non food imports that have a shelf-life, the government mandates that they should not exceed half the administratively set shelf-life at time of entry into Egypt, which has aroused complaints from U.S. and other exporters. Furthermore, the government prohibits the importation of commodities manufactured using ozone-depleting elements.

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. Foreign investors are prohibited from establishing foreign exchange companies. The domestic insurance market is closed to majority-owned foreign companies. Four public sector insurance companies (one of which is a reinsurance company) dominate the market, although three private sector Egyptian companies exist. Two foreign joint ventures in the insurance sector, each with 49 percent ownership, operate in the free zones. Other services barriers include the following: a quota limits the showing of foreign motion pictures; only Egyptian nationals may become certified accountants; private and foreign air carriers may not operate charter flights to/from Cairo except with the approval of the national carrier; and there is regular censorship of films and printed materials. Although Egypt passed a leasing law in May 1995, the executive regulations are still to be promulgated.

Standards, Testing, Labeling and Certification: Egypt was a party to the GATT Standards Code and has stated that it will now meet its new WTO obligations on standards-related issues. The Egyptian government pledged that it would not introduce any new nontariff barriers as it reduced tariff rates and eliminated import bans. However, when the import ban list was reduced in August 1992 and July 1993, 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. Although standards for vehicles are still lacking, the government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates.

Investment Barriers: In early 1991, Egypt replaced its investment licensing regime with a system for automatic approval of investments in sectors not on a "negative list." This list now includes: all military products and related industries; tobacco and tobacco products; and investments in the Sinai (except oil, gas, and mineral ex-

ploration). 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. Performance requirements are not specified in Investment Law 230. However, assembly industries must meet a minimum local content requirement of 40 percent in order to benefit from tariff reductions on imported industrial inputs. Industrial establishments may also be formed in accordance with Companies Law 159, but they will not receive incentives or protections offered by Law 230. Under Investment Law 230 and Companies Law 159, Egyptians must normally comprise 90 percent of a company's workforce, and wages for Egyptian employees must constitute 80 percent of the total wage bill. In cases where qualified Egyptian workers do not exist, companies may seek permission from the appropriate ministry to hire foreign workers, advisors or specialists. In certain sectors, additional restraints on the number of foreign employees exist. For example, in case of maritime services only five percent of the total crew may be foreign, and foreign insurance companies (only allowed in the free trade zones) must have an Egyptian national as managing director.

The U.S.-Egypt Bilateral Investment Treaty (BIT) entered into force 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 joined the WTO Agreement on Government Procurement. The Egyptian 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 for returning bid or performance bonds. 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 in identification of a commodity's tariff category. In February 1994, Egypt implemented the Harmonized System (HS) for customs classification, replacing the previously used CCCN (Customs Commodity Classification Nomenclature). This change should help eliminate arbitrariness in classification; the HS system identifies items by a ten-digit code, allowing for simpler and more accurate classification of commodities. Tariff valuation is based on the "Egyptian selling price," which is 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 this practice, as well as the belief that under invoicing is widely practiced, customs officials routinely increase invoice values by 10 to 30 percent.

The government did 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 copyright and Paris industrial property conventions, bears a commitment to protect U.S. intellectual and artistic works. While Egypt's legal system provides protection for all forms of intellectual property, enforcement, although improving, is still ineffective. The government passed an improved copyright law in 1992 and added software protection in early 1994. A new patent law is currently under consideration. In 1993, the U.S. Trade Representative lowered Egypt from the Special 301 "Priority Watch List" to the "Watch List" due to improvements in copyright protection. However, the United States remains concerned over the need for modern patent laws which would extend immediate protection to certain products, such as pharmaceuticals. The U.S. Government is working closely with Egypt as it drafts new laws to conform with its international commitments, particularly the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). The United States is encouraging Egypt to implement these changes immediately.

Patents (product and process): Egypt's 1949 Patent Law excludes certain categories of products and contains overly broad compulsory licensing provisions. Product patent protection for pharmaceuticals and food products is excluded. The patent term is only 15 years from the application filing date. A five year renewal may be obtained only if the invention is of special importance and has not been worked adequately to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, are granted if a patent is not worked in Egypt within three years or is worked inadequately. U.S. officials have conferred with Egyptian officials and proposed revisions of the draft patent law text. The draft law represents a significant improvement and, if implemented, could be considered a model patent law for the developing world. Egypt has made a commitment to the United States to submit a suitable new patent law to Parliament by early 1996. Industrial designs receive protection (under the patent law) through registration with the Bureau of Industrial Designs in the Ministry of Supply. Egypt grants industrial design protection without examination of previous registrations and without consideration of possibly conflicting trademarks.

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 strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than $100 per seizure, not per infringement, although criminal penalties are theoretically available. The Ministry of Supply is working on a draft bill that consolidates Egypt's 1939 Trademark Law, the 1951 Trade Name Law, and the 1949 Industrial Design Law.

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 nonexistent, such as protection for satellite or cable transmissions and data banks, and on the question of retroactivity, U.S. copyright holders may be able to rely directly on Berne Convention provisions in the Egyptian courts. As a result of U.S. lobbying, in March 1994, the 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 pictures piracy (in video cassette format) has fallen off 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 intended 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 trade losses due to piracy in 1993 were $84 million of which approximately $11 million were due to video piracy (a significant drop from the 1992 level of $37 million prior the passage of Copyright Law 38/92), and $52 million due to computer software piracy. U.S. officials continue to stress the need for better en-

forcement efforts by Egyptian authorities and underscore the importance of police activity being followed by prosecutions and court decisions.

8. Worker Rights

a. *The Right of Association.*—Egyptian workers may, but are not required to, join trade unions. A union local, or worker's committee, may 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 are 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 officers are freely elected and formulate policy independent of the government. They have close relations with the ruling National Democratic Party and some are members of the legislature. They speak vigorously on behalf of workers' concerns, but 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 is expected to submit a new draft labor law to Parliament during 1996. The proposed law provides statutory authorization for collective bargaining and the right to strike. At present, such rights are not adequately guaranteed. 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 for Employment of Children.*—The minimum age for employment is 12. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The Labor Law of 1981 states that children 12 to 15 may work six hours a day, but not after seven PM, 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 between 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 $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.*—The worker rights described in the foregoing sections also apply to workers in the following industries: petroleum; food and related products, metal, nonelectric machinery, electric and electronic equipment, and transportation equipment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,017
Total Manufacturing		85
Food & Kindred Products	(1)	
Chemicals and Allied Products	13	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	5	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		79
Banking		135
Finance/Insurance/Real Estate		(1)
Services		34
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,360

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Population (millions)	57	58	60
Real GDP (billions 1983 IR)[1]	14,451	14,785	15,045
(US$ millions)	48,065	56,630	74,160
Per Capita GDP (US$)	843	976	1,236
Real GDP Growth (percent)[1]	6.1	2.3	1.8
GDP by Sector (percent of GDP):			
Manufacturing	19.5	18.7	18.5
Agriculture	23.2	20.7	21.5
Petroleum	8.8	17.6	18.8
Services	45.5	42.8	42.2
Money and Prices:			
Money Supply (M1, billions IR)	16,941	23,385	31,956
Interest Rate on Short-term Deposits (percent)	7.5	8.0	8.0
Wholesale Price Index (1990/91=100):			
End-year	168.9	211.7	301.4
Consumer Price Index (1990/91=100):			
End-Year	150.1	184.4	249.3
Exchange Rate (IR/US$):			
Basic Rate	66.0	N/A	N/A
Floating Rate	1,459	1,653	1,750

Key Economic Indicators—Continued

[Millions of Iranian rials (IR) unless otherwise noted]

	1993	1994	1995[1]
Balance of Payments and Trade (millions of U.S. dollars):			
Total Exports (FOB)[1]	19,868	18,080	19,054
Exports to U.S.[2]	0.2	0.9	[3]0.2
Total Imports (FOB)[1]	23,274	19,287	12,683
Imports from U.S.[2]	616	329	[3]223
Trade Balance	−3,406	−1,207	6,371
Current Account[1]	−7,304	−4,515	4,581

[1] Estimate.
[2] Year ending December 31.
[3] January-June 1995.

Sources: Bank Markazi Tombouri Islami Iran; IMF; U.S. Dept. of Commerce.
Note.—Data derived from Bank Markazi cannot be verified in most cases.

1. General Policy Framework

Iran experienced continued macroeconomic difficulty in 1995, as the country struggled with a government program of austerity designed to cope with the excesses of the reconstruction boom of the early 1990s, the government's failure to implement promised economic reform measures, and a stagnant petroleum sector. In general, Iranian government policies have failed to respond adequately to the array of economic problems besetting the country. During the past two years, the government's austerity measures have resulted in occasional civil disorder. Continued government-imposed limitations on imports of consumer goods and industrial imports to preserve foreign exchange are likely to slow economic growth further. Even these austerity measures have proven insufficient to resolve Iran's debt problems, and, despite broad rescheduling of arrears in 1994, there has been a recurrence of commercial arrears during 1995. Further debt service difficulties are likely in 1996.

Despite these economic constraints, Iran continues to dedicate considerable resources to a military build-up, development of weapons of mass destruction, and the support of international terrorism and violence targeted against the Middle East peace process. In order to pressure Iran to change this behavior, and to make it difficult for the Iranian government to sustain the priority funding given to these programs, on April 30, 1995 the President announced that the United States would impose additional trade and investment sanctions against Iran. In combination with pre-existing trade restrictions, this action amounted to a comprehensive trade and investment embargo. The United States has also accelerated efforts to convince its major trading partners to join America in using economic pressure to seek changes in Iran's behavior. Through these efforts the U.S. government has succeeded in limiting Iran's access to foreign capital, but the United States has not obtained the broader cooperation it is seeking from other members of the international community. In the absence of such cooperation, at the end of 1995 the U.S. Congress was considering legislation that would impose U.S. sanctions against foreign entities that engage in certain business with Iran.

This intensification of U.S. pressure triggered a severe drop in the Iranian rial in May 1995. The Iranian government imposed strict controls to stabilize the currency, but these measures caused currency shortages and forced a reduction in imports. Inflation and unemployment, already at high levels, were also exacerbated.

2. Exchange Rate Policies

Following the precipitous depreciation of the rial in May 1995, the Iranian government responded by raising the export repatriation and surrender requirement to 100 percent, and requiring all foreign exchange transactions to be conducted through the banking system. Though effective in stabilizing the rial, these measures had a chilling effect on the economy, particularly the private sector.

3. Structural Policies

The banking, petroleum, transportation, utilities, and mining sectors are nationalized. The Iranian 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 will have difficulty maintaining current production, much less achieving the government's publicly stated goal of five MBD of sustainable capacity. The government also needs large amounts of capital to develop its gas resources. Recognizing these constraints, the government implemented a major change in policy in 1995 when Iran invited foreign participation in the development of its petroleum sector. Iran's 1995 contract with the French oil company, Total, to develop the Sirri field is the first example of foreign involvement in Iran's petroleum sector since the revolution. However, the political and economic risks of dealing with Iran are expected to limit foreign involvement.

The government did not meet its projected petroleum revenues in 1995 due to soft oil prices. The government sells petroleum products domestically at about ten 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. Iran's external debt now totals approximately $30 billion.

The credit crunch of 1993–1994 crippled Iran's trade. A series of bilateral reschedulings with official creditors in 1994 did not include significant new credits. In 1996, however, the principal on these rescheduled debts will come due, causing Iran's foreign debt obligations to double. It remains to be seen whether Iran can fully make its payments in a timely fashion.

5. Significant Barriers to U.S. Exports

Exports from the U.S. to Iran are prohibited. On May 6, 1995, President Clinton signed Executive Order 12959 prohibiting U.S. investment in and trade with Iran. After a 90-day implementation period, the sanctions took full effect on August 6, 1995. Iran is not a member of the World Trade Organization.

6. Export Subsidies Policies

Not applicable.

7. Protection of U.S. Intellectual Property

Iran is not a member of the World Intellectual Property Organization, but is a signatory to the Paris Convention for the Protection of Industrial Property. Patent protection is below the level of protection in the United States. Iran has not adhered to any of the international copyright conventions.

8. Worker Rights

a. *The Right of Association.*—Although the Labor Code grants workers the right to establish unions, there are no independent unions. A national organization known as the Worker's House, founded in 1982, is the sole authorized national labor organization. It serves primarily as a conduit for government control. The leadership of the Worker's House coordinates activities with Islamic labor councils which are organized in many enterprises. These councils also function as instruments of government control, although they have frequently been able to block layoffs and dismissals. Moreover, a network of government-backed guilds issues vocational licenses, funds financial cooperatives, and helps workers find jobs.

The government does not tolerate any strike deemed to be at odds with its economic and labor policies. In 1993 the Parliament passed a law which prohibits strikes by government workers. It also prohibits government workers from having contacts with foreigners and stipulates penalties for failure to observe Islamic dress codes and principles at work.

The Revolutionary Guards, a military force established after the revolution, forcibly broke up at least two labor strikes in 1995. In July the Guards broke up a 3-day strike at the Benz Khavar auto manufacturing plant in Islamshahr where workers had been demanding a pay increase. The Guards placed some workers under arrest. In August the Guards also broke up a protest over layoffs at a private textile factory in the city of Ghaemshahr.

b. *The Right to Organize and Bargain Collectively.*—Workers do not have the right to organize independently and negotiate collective bargaining agreements. It is not known whether labor legislation and practice in the export processing zones differ from the law and practice in the rest of the country. No information is available on mechanisms used to set wages.

c. *Prohibition of Forced or Compulsory Labor.*—The Penal Code provides that the government may require any person who does not have work to take suitable employment. This provision has been criticized frequently by the International Labor Organization (ILO) as contravening ILO Convention 29 on forced labor.

d. *Minimum Age for Employment of Children.*—Labor law prohibits employment of minors under 15 years of age and places special restrictions on the employment of minors under age 18. Education is compulsory until age 11. The law exempts workers in agriculture, domestic service, and some small businesses. By law, women and minors may not be employed in hard labor or, in general, night work. Information on the extent to which these regulations are enforced is not available.

e. *Acceptable Conditions of Work.*—The Labor Code empowers the Supreme Labor Council to establish annual minimum wage levels for each industrial sector and region. It is not known if the minimum wages are adjusted annually or enforced. The Labor Code stipulates that the minimum wage should be sufficient to meet the living expenses of a family and should take inflation into account. Information on the share of the working population covered by the minimum wage legislation is not available.

The Labor Code establishes a 6-day workweek of 48 hours maximum, with 1 weekly rest day, normally Fridays, and at least 12 days of paid annual leave and several paid public holidays.

According to the Labor Code, a Supreme Safety Council, chaired by the Labor Minister or his representative, is responsible for promoting workplace safety and health. The Council has reportedly issued 28 safety directives and oversees the activities of 3,000 safety committees established in enterprises employing more than 10 persons. It is not known how well the Ministry's inspectors enforce regulations.

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—1994

[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

After Iraq's invasion of Kuwait in August 1990, the United Nations Security Council passed a number of resolutions imposing a near-total trade and air embargo on Iraq and freezing Iraq's overseas assets. Shortly thereafter, President Bush, act-

ing in part under authority of the International Emergency Economic Powers Act, issued Executive Orders 12722 and 12724 which froze Iraqi government assets within the United States and barred virtually all transactions between U.S. persons and Iraq. This embargo remains in effect.

The U.S. sanctions imposed in the above executive orders incorporate all the measures contained in the various Security Council resolutions. The resolutions prohibit all exports from Iraq, including the oil exports on which Iraq has traditionally depended for foreign exchange earnings. The resolutions also ban all exports to Iraq, except for food, medicine and other items determined by the U.N. to be for essential civilian needs.

Due to budget constraints, the U.N. Iraq sanctions committee staff no longer produces aggregate reports on committee approvals of exports to Iraq. Nonetheless, we estimate that committee-approved exports of food, medicine and other essential civilian items continued in 1995 at approximately the same pace as 1994. In the first half of 1994 the committee was notified of $2 billion in food shipments to Iraq, and $175 million in medicine. The committee also approved the export to Iraq of $2 billion worth of other items deemed for essential civilian needs (many of which were related to Iraq's agricultural and sanitation sectors).

The Ba'athist regime engages in extensive central planning and management of industrial production; small-scale industry and most agriculture are in private hands. While the country has significant arable land, it is historically a net food importer. The economy is dominated by oil, which traditionally provided 95 percent of foreign exchange earnings.

During 1995, the Iraqi economy continued to deteriorate as a result of the sanctions. While government-provided food rations were increased by ten percent this year, this increase does not make up for the 40 percent cut in 1994. Government rations supply only about half of minimum daily caloric requirements; Iraqis must make up the difference through purchases on the open market or through assistance from international humanitarian organizations. Inflation has continued at high levels. Salaries have not kept pace, and are now sufficient only to make a minimal contribution to the nutrition and health needs of Iraqi families.

The government seems to be finding it increasingly difficult to compel farmers to sell their harvest to the government. Most farmers prefer to hoard their production or sell it on the black market at much higher prices than that paid by government purchasing agents. Government and Ba'ath party officials are frequently quoted in the press urging farmers to sell their entire harvest to the state; these entreaties are often accompanied by veiled threats. The government promulgated new decrees increasing penalties to those who sell their harvest to anyone other than the state marketing board, and increasing rewards for local officials who compel sales to the state. The press often publishes columns accusing merchants of treason for raising prices unjustifiably. There has not, however, been a repeat of earlier executions of merchants for profiteering.

The value of the dinar continues to plummet. The black market exchange rate stood at about 750 dinar per dollar at the end of 1994. In January, 1995 the Iraqi Central Bank began issuing a new 250 dinar bank note. Prior to this the largest bill in circulation had been 100 dinar. Government raises of 50–70 percent in July for civil servants and members simply resulted in concomitant price increases. By December 1995 the dinar had fallen to as low as 3,000 to the dollar.

In an effort to relieve the humanitarian situation, the Security Council passed Resolution 986 in April 1995. Under the terms of 986, Iraq would be permitted to export $1 billion worth of oil every three months for six months and to use the proceeds to purchase food, medicine and other items essential for civilian needs. (Some of the proceeds would also be used to pay for UN activities in Iraq and pay claims to those harmed by Iraq's invasion of Kuwait.) The UN would control all funds and monitor the distribution of the items purchased to ensure they were being distributed fairly throughout Iraq. After six months, the Council would consider whether to extend the arrangement for a longer period. The Iraqi government has refused to implement the resolution.

Data on U.S. investment in Iraq is not available.

ISRAEL

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)[2]	61.4	65.4	69.8
Real GDP Growth (percent)	3.4	6.5	6.8
GDP (current prices)	65.8	74.1	86.9
GDP by Sector:			
Public Sector[3]	12.7	15.1	16.5
Ownership of Dwellings	7.6	9.0	11.2
Business Sector	45.5	49.9	59.2
Industry	13.4	14.5	N/A
Agriculture	2.0	2.1	N/A
Transportation/Communication	5.7	6.2	N/A
Construction	4.2	4.5	N/A
Trade and Services	18.3	20.6	N/A
Water/Electricity	1.8	2.0	N/A
Net Exports of Goods & Services	−7.9	−9.4	−10.5
Per Capita GDP (US$)	12,502	13,725	15,711
Labor Force (000s)	1,946	2,030	2,100
Unemployment Rate (percent)	10.0	7.8	6.3
Money and Prices (annual percentage change):			
Money Growth (M2)[4]	38	33	27
Base Interest Rate (percent)[5]	11.3	13.4	14.5
Private Savings Rate (percent)	18.4	16.3	N/A
Consumer Inflation[6]	11.2	14.5	8.0
Wholesale Inflation[6]	7.2	9.7	10.0
Exchange Rate (shekel/US$)[4]	2.83	3.01	3.02
Balance of Payments and Trade:			
Total Exports (FOB)	14.1	16.1	17.2
Exports to U.S.	4.6	5.5	5.6
Total Imports (CIF)	20.2	23.4	27.3
Imports from U.S.	3.6	4.3	5.3
Aid from U.S.	3.0	3.0	3.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt (Cross)	19.9	22.1	23.0
Debt Service Paid[7]	4.1	4.6	5.0
Reserves[6]	6.4	6.8	8.9
Trade Balance	−6.1	−7.3	−10.1
Balance with U.S.	1.0	1.2	0.3

[1] Projected.
[2] Converted at average 1990 Shekel/USD exchange rate.
[3] Includes nonprofit institutions.
[4] Annual average.
[5] Bank of Israel average discount rate.
[6] End period.
[7] Includes private sector.

1. General Policy Framework

Since the upsurge in immigration from the former Soviet Union began in 1990, Israel has enjoyed a sustained economic boom, as its economy has become increasingly sophisticated and technologically advanced. Economic growth has averaged over six percent annually over this period, allowing per capita private consumption to jump by 21 percent in real terms. Israel's growing affluence and close familiarity with U.S. culture make it a promising market for goods and services from the United States.

The absorption of over 600,000 immigrants in a country of some five million people has required a rapid increase in Israel's housing stock, expansion of its infrastructure, and sizable investments in new plant and equipment. The level of new capital formation doubled between 1990 and 1995. Infrastructure spending is ex-

pected to remain high in the coming years, with several multi-billion dollar projects planned, including a new north-south highway, a major expansion of its principal airport, and an underground rail system for the Tel Aviv area. Israel will also join in a number of cooperative infrastructure projects with its immediate neighbors, as the process of its political and economic integration in the region proceeds. To encourage investment in particular regions or industries, the Israeli government offers certain investment incentives, including tax concessions and outright grants. These are available to both Israeli and foreign investors.

The relatively high level of education and training among the recent immigrants has added to Israel's already strong skills base, as Israel's economy has focused increasingly on knowledge-based industries, such as medical equipment and computer hardware and software. Israel is an increasingly "digital" society, and the market for telecommunications and computer products and services is growing rapidly.

Realization of Israel's bright economic prospects depends on sound macroeconomic management. Despite the challenge of immigrant absorption, Israel achieved a significant degree of fiscal consolidation from 1990 to 1994, as its public sector deficit fell from four to one percent of GDP. That process was reversed in 1995, however, as the deficit widened to an estimated five percent of GDP, due primarily to shortfalls in revenue collections. Despite that reversal, Israel remains committed to reducing its level of government spending and taxation and the size of its budget deficit. Israel finances its budget deficit through a combination of domestic borrowing, the sale of government-owned companies, and foreign borrowing, including funds raised under the five-year, $10 billion program of loans guaranteed by the U.S. Government. Under that program, Israel is committed to increasing its purchases of investment goods and services from the United States.

Israel's heavily-indexed economy, the legacy of its triple-digit inflation of the early 1980s, has left it resistant to attempts to reduce inflation to below double-digit levels. The Central Bank's principal tool of monetary policy is the rate of interest charged on its auctions of credit to the commercial banks. It also adjusts the volume auctioned in accord with its targets for domestic liquidity. As Israelis have turned to external credit sources in view of the high domestic interest rates of the past year, the Central Bank has progressively reduced the amount of credit on offer. Recently, the Central Bank has added a new mechanism, shekel/dollar swaps, or repurchase agreements, to its monetary tool kit.

2. Exchange Rate Policies

Under the crawling-peg "diagonal" exchange rate system introduced in 1991, the shekel floats within a target zone around a midpoint determined by a weighted-average of the exchange rates of five currencies: the dollar, yen, mark, pound, and French franc. The midpoint depreciates at a pre-determined nominal rate, currently six percent annually, judged to be the inflation differential between Israel and its key trading partners. On June 1, 1995, the range of allowable fluctuation around the midpoint was widened from five to seven percent, among other reasons to discourage excessive inflows of short-term capital by increasing the degree of exchange rate risk in the system. This change was motivated by concern over the real appreciation of the shekel, which has remained nearly constant in nominal terms against the dollar for two years despite cumulative inflation exceeding 20 percent over that period.

Israel ended all foreign exchange restrictions for current account transactions in 1993 and is progressively reducing its remaining capital controls. Virtually all restrictions on capital inflows and on outward investment by individuals have been eliminated. In October 1994, the government also removed its limit, previously 40 percent of equity, on direct foreign investment by Israeli companies. Foreign portfolio investment by institutional investors is the last area in which significant capital controls remain. Because of tax considerations, most foreign portfolio investment by Israeli residents, both institutional and individual, has been in the shares of Israeli companies traded abroad.

3. Structural Policies

For most of its history, Israel had a relatively closed and protected economy, heavily subject to government direction and regulation, in part for security reasons. As Israel's security situation improves and its economy becomes more sophisticated, it is moving in the direction of a more open, competitive, and market-oriented economic system.

One element of Israel's transition to a less government-dominated economy has been its program of privatizing the extensive network of state-owned companies. Progress under the privatization program, which began in 1986, has been slower than expected. As of August 1995, 64 state-owned companies, subsidiaries, or mixed-

ownership firms had been sold or liquidated, and partial sales had been made of seven other firms. Cumulative revenue from privatization as of August 1995 was $3.4 billion, of which 22 percent had been realized since the beginning of 1994. In early 1995, the government announced a new program of options to be distributed to all adult Israeli citizens. Under the program, which is expected to be implemented in 1996, options holders will be able to purchase shares in government-owned companies at a discounted price or to sell the options to other investors.

Preparatory work continues toward the eventual full or partial privatization of several of the largest companies in the government's portfolio, including the telecommunications company Bezeq, the national airline El Al, the shipping company ZIM, and Israel Chemicals. Partial stakes in Bezeq, ZIM, and Israel Chemicals have already been sold. Plans for the sale of the government's interests in the country's major banks are at a relatively advanced stage. Before such sales are concluded, the government must decide whether to require divestiture of some of the banks' extensive holdings in Israeli industry. Israel has been committed to reducing its overall tax burden, which is high by U.S. standards, through such measures as adjustments to personal income tax brackets to offset "bracket creep" and reductions in the corporate income tax rate, which is scheduled to fall to 36 percent in 1996. Israel is in the process of adjusting its port fees so that the same charge applies to both importers and exporters. Formerly, only importers were charged.

4. Debt Management Policies

In the decade after its 1985 stabilization program, Israel's net external debt fell from 73 to 23 percent of GDP, as the dollar value of its GDP grew while its net debt held nearly steady in nominal terms. That trend will now be reversed, as the borrowing needed to finance current account deficits forecast at roughly five percent of GDP in 1995 and 1996 will add to Israel's debt. Israel is taking advantage of the $10 billion U.S. loan guarantee program to reduce the cost and stretch out the maturity of its external public debt. The government also plans to tap the international capital markets under Israel's own name to establish a presence in the market in preparation for the eventual expiration of the loan guarantee program. In November 1995, it raised DM 350 million (roughly $250 million) from a London-based syndicate of 40 international banks. Additional offerings are planned for the New York and Tokyo markets.

5. Significant Barriers to U.S. Exports

With the exception of some categories of agricultural produce and processed foods, all duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area (FTAA) Agreement effective January 1, 1995. The FTAA liberalized and expanded the trade of goods between the United States and Israel, and spurred discussions on freer trade in services, including tourism, telecommunications, and insurance.

Israel ratified the Uruguay Round agreement on January 15, 1995. Israel became a member of the World Trade Organization on April 21, 1995. 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.

Nontariff barriers such as purchase taxes, variable levies, quotas, uplifts, standards, and quantitative restrictions continue to impede U.S. exports, especially in such sensitive sectors as agriculture, produce, 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. The variable levies will be converted to relatively high tariffs and tariff-related quotas under Israel's submission to the World Trade Organization (WTO) before the end of 1995. Quantitative restrictions, and in some cases, outright prohibitions, affect primarily poultry, dairy products, and plywood.

In addition to these restrictions, Israel has two unique forms of protection for locally produced goods. The first is Harama, meaning "uplift," which is applied at the pre-duty stage to the CIF value of goods to bring the value of the products to an acceptable level for customs valuation. Israel calculates import value according to the Brussels definition of value (BDV), a method which tolerates uplifts of invoice prices. For purposes of calculating duty and other taxes, the Israeli customs service arbitrarily uplifts by two to five percent the value of most products which exclusive agents import, and by 10 percent or more the value of other products. Israel has agreed to use only the actual wholesale price for large importers after 1995. Israel is subject to commitments under the WTO agreement on customs valuation.

The second uniquely Israeli form of protection is TAMA, a Hebrew acronym standing for additional quota percentage. TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product.

In addition, purchase taxes that range from 25 to 95 percent are applied on goods ranging from automobiles to some agriculture and food items. The GOI has eliminated or reduced purchase taxes on many products including consumer electronics, building inputs, and office equipment. Where remaining, purchase taxes apply to both local and foreign products. However, when there is no local production, the purchase tax becomes a duty equivalent charge.

Israel has reduced the burden of some discriminatory measures against imports. 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, auto headlights, plywood, carpets, and packaging/labelling for food items) standards are written so that domestic goods meet requirements more easily than imports. The Government of Israel is in the process of amending its law on standards which should facilitate entry of some standard U.S. units. Israel has agreed to notify the United States of proposed new, mandatory standards to be recorded under the WTO.

The Standards Institution of Israel is proposing a bilateral mutual recognition agreement of laboratory accreditation with the United States that could result in the acceptance of U.S. developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements.

The Israeli government actively solicits foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and are eligible for incentives for designated "approved" investments in priority development zones. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. About 100 major U.S. companies have subsidiaries in Israel and some 170 Israeli companies have subsidiaries in the United States. Investment in regulated sectors, including banking, insurance, and defense industries, requires prior government approval.

Israel has one free trade zone, the Red Sea port city of Eilat. In addition to the Eilat Free Trade Zone, there are three free ports: Haifa (including Kishon), Ashdod and Eilat. Enterprises in these areas may qualify for special tax benefits, and are exempt from indirect taxation.

As a party to the Uruguay Round Agreement on Government Procurement, Israel has agreed to wide coverage of Israeli government entities to enable more open and transparent international tendering procedures. Legislation establishing the U.S. loan guarantee program for Israel envisions a substantial increase of U.S. exports of investment goods to Israel. To this end, the Israeli government provides information to the U.S. Government on existing and proposed tenders issued by government entities valued at over $50,000. However, some U.S. companies continue to report problems in receiving timely notice of Israeli government tenders.

The Government of Israel frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises, and municipal authorities. Failure to enter or fulfill such industrial cooperation agreements (investment, co-development, co-production, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, U.S. firms may still encounter requests to enter into offset arrangements. Israeli government agencies and state-owned corporations not covered by the Uruguay Round Government Procurement Code follow a "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 WTO multilateral trade commitments and its FTAA with the U.S., Israel also has free trade agreements (FTAs) with the EU and EFTA states. With respect to all other countries, Israel substituted steep tariffs for nontariff barriers previously applied to trade, and is gradually reducing these tariffs. The seven-

year phase-in of Israel's import liberalization program has diluted, to some extent, U.S. advantages under the bilateral FTAA. As EFTA countries accede to the European union, Israel's EFTA FTAA will be superseded by the EU/Israel Agreement, which became effective in November 1995 and broadened and deepened the 1975 accord. Israel also has or is negotiating FTAs 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 an 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. antidumping or countervailing duty cases. In 1994 the United States Government cited Israeli subsidies of butt-weld pipe fittings in a countervailing duty investigation. Israel has been a member of the GATT subsidies code since 1985 and will now be subject to subsidy obligations of the WTO.

The Israeli parliament passed legislation in May 1994 authorizing creation of free processing zones (FPZs). Qualifying companies operating in the 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 appear consistent with the U.S./Israeli FTAA export subsidies commitment.

7. Protection of U.S. Intellectual Property

Cable, television, video, and software piracy is common in Israel. Israel currently has an antiquated copyright law which, together with weak enforcement, has led to piracy in these industries. A new draft copyright law, with IPR requirements, is under review by the Government of Israel. The law will also include enhanced rights of distribution in connection with rental rights and imports of copyrighted materials. Rental rights will cover all protected works, including sound recordings, cinematographic works, and computer programs. Protection for software has been upgraded, and the two major movie distribution chains generally comply with copyright requirements. A cable broadcast law is also under consideration.

Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and non-working patents. In addition, revised laws are under consideration for protection of industrial designs, trademarks, and integrated circuits.

The Government of Israel is also considering an amendment to the patent law which would allow nonpatent holders to manufacture patented pharmaceutical products prior to the expiration of patent rights in order to submit data to foreign and Israeli health authorities to gain marketing approval. The U.S. pharmaceutical industry and U.S. Government have objected to the proposal, since it does not provide any compensatory extension of exclusive patent rights and would permit experimental production for submission to foreign regulatory agencies.

Israel is a member of the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Berne Copyright Convention. In addition, as a signatory of the World Trade Organization (WTO) agreements, including trade in intellectual property and services (TRIPs), Israel is in the process of making all revisions necessary to meet all WTO TRIPs requirements.

8. Workers Rights

a. *The Right of Association.*—Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. In 1995, membership in the Histadrut dropped sharply after the Federation's links with the nation's largest health maintenance organization were severed. Membership averaged about 30 percent of the workforce, including Israeli Arabs. A majority of the workforce still was covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, may not be members of Israeli trade unions, but are entitled to some 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 antiunion discrimination, the basic law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the Knesset has passed legislation authorizing creation of free processing zones, as discussed in section 6.

c. *Prohibition of Forced or Compulsory Labor.*—The law prohibits forced or compulsory labor, and neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. *Minimum Age for Employment of Children.*—Children who have attained the age of 15 years, and who are liable to compulsory education under the compulsory education law, may not be employed unless they work as apprentices under the apprenticeship law. Notwithstanding these provisions, children who have completed their 14th year may be employed during a period of official school holidays. Employment of those aged 16 to 18 is restricted to ensure time for rest and education. Ministry of Labor inspectors enforce these laws, but advocates of children's rights charge that enforcement is inadequate, especially in smaller, unorganized workplaces. Illegal employment of children does exist, probably concentrated in urban light-industrial areas.

e. *Acceptable Conditions of Work.*—Legislation in 1987 established a minimum wage at 45 percent of the average wage, calculated periodically and adjusted for cost of living increases. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the labor inspection service enforces labor, health, and safety standards in the workplace. By law, maximum hours of work at regular pay are 47 hours per week (eight hours per day and seven hours the day before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are technically covered by the law and collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors With U.S. Investment.*—Workers at U.S. firms operating in Israel enjoy the same rights enumerated in subsections A–E. With respect to worker rights, there is no distinction between the situation of U.S. firms and non-U.S. firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		930
Food & Kindred Products	(1)	
Chemicals and Allied Products	68	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	515	
Transportation Equipment	2	
Other Manufacturing	255	
Wholesale Trade		(2)
Banking		0
Finance/Insurance/Real Estate		(1)
Services		155
Other Industries		47
TOTAL ALL INDUSTRIES		1,350

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

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

JORDAN

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)[2]	3,342.1	3,537.4	3,749.6
Real GDP Growth (percent)	5.8	5.8	6.0
GDP (current prices)[2]	5,336.0	5,866.8	6,453.5
GDP by Sector:			
Agriculture	270.6	284.2	N/A
Energy and Water	110.2	120.8	N/A
Manufacturing	598.2	689.8	N/A
Construction	397.2	425.0	N/A
Rents	10.6	10.6	N/A
Financial Services	871.8	928.3	N/A
Other Services	124.3	131.7	N/A
Government/Health/Education	866.7	936.0	N/A
Net Exports, Goods & Services	−1,665.4	−1,379.6	N/A
Real Per Capita GDP (1985 base)	846.2	863.5	882.7
Labor Force (000s)	859	916	972
Unemployment Rate (percent)	20	20	20
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.9	8.0	8.0
Base Interest Rate[3]	8.5	8.5	8.5
Personal Saving Rate (percent)	8.0	7.5	7.5
Retail Inflation	3.3	3.6	4.0
Wholesale Inflation	0.7	1.4	3.2
Consumer Price Index	103.3	107.0	111.0
Exchange Rate (US$/JD)[4]	1.4	1.4	1.4
Balance of Payments and Trade:			
Total Exports (FOB)[5]	1,210.6	1,393.3	1,500.0
Exports to U.S.	10.2	12.5	15.0
Total Imports (CIF)[5]	3,435.0	3,307.6	3,500.0
Imports from U.S.	436.1	326.1	340.0
AID from U.S.	90.5	37.0	19.5
AID from Other Countries	228.6	234.2	250.0
External Public Debt	7,746.6	6,457.6	5,812.2
Debt Service Payments (paid)	435.7	509.6	550.0
Gold and Forex Reserves	1,706.9	1,855.1	2,100.0
Trade Balance	2,224.4	1,914.3	2,000.0
Trade Balance with U.S.	−425.9	−313.6	−325.0

[1] 1995 Figures are estimates.
[2] GDP at producers' prices.
[3] Average rediscount rate.
[4] Actual exchange rate.
[5] Merchandise trade.

1. General Policy Framework

Jordan is one of the smallest economies of the Middle East and North Africa region, with a population of four million people and a GDP of $6.5 billion. Jordan has successfully overcome many economic setbacks since the mid-1980's. Nevertheless, it continues to face several important challenges, including encouraging greater investment and reducing unemployment.

Since 1988, the government has pursued an economic structural adjustment program in cooperation with the International Monetary Fund (IMF). Jordan has been commended by the Fund for achieving sustained economic growth while meeting certain IMF-mandated economic targets. Annual GDP growth has ranged between five and six percent since 1991. Jordan decreased its budget deficit to less than five percent of GDP in 1995 from 25 percent of GDP in 1989, and has reduced its external debt from 310 percent of GDP in 1988 to 90 percent of GDP in 1995. Domestic investment has increased due to regional events, principally the Gulf crisis, which resulted in the return of over 300,000 professionals and businessmen to Jordan.

The Government of Jordan has begun to control consumption as a percentage of GDP. Private investment has increased in recent years and the government has reallocated some $900 million of its capital revenues since 1993 to infrastructure and development-related projects. This fiscal management strategy has contributed to a domestic savings rate of five percent of GDP.

During a special session of Parliament in the summer of 1995, the government passed and enacted a number of key pieces of legislation creating a more business-friendly environment in Jordan. The Encouragement of Investment Law is designed to attract both international and local investment to the kingdom and is expected to lead to greater investment in such nontraditional sectors as energy, telecommunications, water drilling and pumping, tourism, railway and maritime transportation and information technology. The new Income and Sales Tax Laws shift the tax burden to consumers via higher sales taxes and lower corporate and individual income taxes. The special session also removed from Jordanian law all references to the Arab Boycott of Israel. Finally, new regulations make it easier for multinational corporations to gain concessions in mining, mineral extraction and petroleum exploration.

October's Amman Economic Summit provided the government with a unique platform to showcase the new business environment in Jordan. The 1,200-plus international business people who attended the Summit were introduced to Jordanian public and private sector projects as well as regional projects involving Israel, Egypt and the Palestinian areas. The government also publicized its intention to complete its application to the WTO by January 1996.

The Central Bank of Jordan (CBJ) regulates the Jordanian banking system via indirect methods, such as dinar- and dollar-denominated certificates of deposit. In September 1995, it established the dinar as a fully-convertible currency for noncapital remittances, and in November 1995 announced a fixed dollar-dinar rate for current payments. The September measure is consistent with the government's efforts to liberalize external trade. The November measure is intended to boost public confidence in the dinar. Jordan has received credit ratings from Standard and Poor and Moody's, the first Arab country to be rated by both organizations. Standard and Poor's rated Jordan as "single B plus" for external debts and "triple B minus" for internal debts. Moody's rated the Kingdom as "BA3."

2. Exchange Rate Policies

The Central Bank regulates foreign currency transactions in Jordan and sets the exchange rate. It also restricts moneychangers' currency transactions to a specified range of buying and selling rates. In a bid to protect the dinar and refute allegations of a currency devaluation, the Central Bank announced in November 1995 its decision to fix dollar-dinar rates at 0.708 (buy) and 0.710 (sell) dinars to the dollar, (approximately $1.40 to the dinar). The dinar will continue to fluctuate against other currencies according to market forces.

On November 12, the average exchange rate of the dinar against major currencies was as follows:

Foreign Currency *(One Unit)*	Dinar Equivalent *(1,000 fils to the dinar)*
U.S. dollar	0.709
British Pound	1.110
Deutsche Mark	0.502
Swiss Franc	0.624
French Franc	0.145
Japanese Yen (1,000)	0.703

A request by the Governor of the Palestinian Monetary Authority that Jordanian banks deposit 12 percent of their holdings with the Authority as a reserve is seen by Jordanian bankers as an added pressure on the dinar. The significant quantity of dinars in circulation in the West Bank and Gaza creates a problem for the Central Bank of Jordan inasmuch as this supply of dinars is largely outside its control. The government is working with the IMF to establish a restitution fund to ease pressures on Jordanian hard currency reserves as a result of exchange demands

3. Structural Policies

Pricing Policies: In general, market forces set prices in Jordan. 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 nonstrategic commodities such as automobile spare parts, construction materials, household cleaning materials and food and beverages served in restaurants. The Ministry of Supply may intervene to set price ceilings on any consumer commodity. It also operates a ration card system for consumer purchases of sugar, rice and milk for citizens whose monthly income is less than $715. In November 1994, the Ministry of Supply submitted a proposal to the Cabinet to eliminate price controls on nonsubsidized, nonstrategic commodities. The proposal had few supporters and never advanced. Subsidized prices and controls have no impact on Jordanian imports of U.S. food staples.

Tax Policies: The government remains dependent on customs duties and import taxes for much of its domestic revenue. These duties/taxes are collected on all imports except industrial raw materials and machinery. High tariff rates are imposed on most consumer and luxury goods. Though reduced in 1994 and 1995, tariff rates on automobiles are especially high, ranging from 110 to 210 percent depending on engine size. To stimulate export production, import tariffs are low on most raw materials, machinery and semifinished goods. In recent years, customs collections have yielded a lower percentage of total government revenues as other taxes assumed greater importance.

The kingdom's new income tax law went into effect January 1, 1996. The legislation reduces taxes on corporate earnings by 15 percentage points on average. The highest marginal rate was lowered from 55 percent to 35 percent. Taxes on individual incomes were reduced by an average of 20 percent. Taxes are set at 35 percent for banks and financial institutions, and 25 percent for companies engaged in brokerage and agency activities. The law exempts reinvested profits from income tax, reflecting the government's desire to encourage reinvestment of capital into new projects and recapitalization of net returns from existing projects.

The amendment to the sales tax law, which went into effect October 1, 1995, raises the sales tax from seven to ten percent. It exempts exports from sales taxes and empowers the Council of Ministers to impose an "additional sales tax" to compensate for revenue losses resulting from reduced customs duties on goods and services subject to the sales tax. The amendment to the sales tax law simplifies tax collection and adds industrial raw materials to the list of exempted commodities. Almost all types of professional, business and legal services are now subject to a ten percent sales tax.

Regulatory Policies: Jordanian regulations pertaining to the licensing and operation of regional offices of foreign firms are fairly clear. However, local American business people complain of difficulties with customs authorities regarding the transparency of tariff exemptions and licensing. To discourage illegitimate foreign companies from setting up offices in Jordan, the Ministry of Industry and Trade requests that applicants sign a waiver disclaiming their right to request foreign office exemptions and privileges. U.S. businessmen find this blanket measure to be restrictive and unfair. The new investment law, which went into effect in September 1995, removed cumbersome and time consuming procedures delaying registration and government approval of projects carried out by foreign investors.

The government is working on amending legislation affecting the business climate in Jordan. In addition to the investment law and sales and income taxes laws, the GOJ announced its intention to pass amendments to the following: Companies Act, Amman Financial Market Law, Electricity Law, Commercial Agents and Middlemen Law, and Copyrights Law. These legislative items have been sent to the Council of Ministers and should have been submitted during the next session of Parliament beginning in December 1995.

4. Debt Management Policies

Jordan's external debt as of December 31, 1994 stood at $6.5 billion, about 110 percent of GDP and a 35 percent decline from a year earlier. The Ministry of Finance expects the country's external debt to fall to about 90 percent of GDP by the

end of 1995. Much of this decrease was made possible by the U.S. Government forgiving all bilateral official debt, amounting to approximately $700 million, or about 10 percent of Jordan's total external debt. The government is working with other major creditors, including France, Japan and Germany, to further reduce its debt.

According to the latest available statistics, total outstanding contracted debt (in US$ millions) stands as follows:

A. Long term loans			6,112.0
Arab governments		498.1	
Bilateral loans	44.2		
Arab funds	453.9		
Industrial countries		3,887.5	
Bilateral loans	2,171.3		
Export Credit Guarantee	1,716.3		
Other governments		14.3	
Foreign banks		186.1	
Foreign companies		34.0	
Multilateral Institutions		1,492.0	
B. Short term loans			0
C. Bonds			56.3
D. Leasing contracts			289.4
Total Contracted Debt Outstanding			6,457.7

Source: Ministry of Finance, Jordan.

Note.—The 6,457.7 million dollars in total outstanding contracted debt represents 5,480.7 million dollars in total external outstanding debt plus 976.9 million dollars in total undisbursed balance of contracted loans.

5. Significant Barriers to U.S. Exports

Import Licenses: According to Import/Export Regulation No. 74 of 1993, an import license is not required except in specific cases. In October 1995, the Ministry of Industry and Trade issued instructions waiving licensing requirements for 32 items, including strategic food commodities, telecommunications products, certain electronic equipment, and medical materials. Imports from countries having trade protocols with Jordan continue to require a license, however.

Despite the new Ministry of Industry and Trade instructions, the Customs Department continues to require an import license for almost all products, though the process of obtaining the license has been simplified. A license is now issued to the importer upon opening a letter of credit with the local bank. Similarly, the issuance of CBJ-controlled foreign exchange permits continues, but importers now can obtain the permit after rather than before goods have cleared customs. These two measures should facilitate trade flows 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 Corporation. Foodstuffs and medicines must undergo laboratory testing and certification. Jordanian testing standards for consumer and durable items are becoming increasingly flexible for importers of U.S. products; however, they often lack full transparency. Until a new customs law is issued enforcing internationally accepted rules of origin, the government will continue to fine importers of American products containing parts and components made outside the U.S.

Investment Barriers: The main purpose of the new Encouragement of Investment Law is to promote both local and foreign investment in Jordan and to resolve outstanding ambiguities in previous investment laws. Most important to U.S. business, the law affirms that foreign and Jordanian investors will receive equal treatment, though certain restrictions on foreign investment may remain in industry sectors specifically designated by the Council of Ministers.

According to a communique issued by the Investment Promotion Department, the government will grant foreign investors the rights of "national treatment" under the new investment law; however, foreign ownership will be limited to 49 percent in the land and air transportation and construction sectors as well as specially-designated subsectors of education, trade and the media. The U.S. has proposed a Bilateral Investment Treaty with Jordan, and it is currently under review by the government.

Government Procurement Practices: With a few exceptions, government purchases are made by the General Supplies Department of the Ministry of Finance. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through agents.

While Jordan's procurement law does not allow noncompetitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender issuing department, in addition to review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions. Foreign bidders may seek recourse only through the Jordanian legal system. In response to a recommendation of the Royal Development and Modernization Commission, a higher procurement commission was created in October 1994 to monitor procedures of the Supplies Department.

Customs Procedures: Customs procedures probably present the greatest challenge to doing business in Jordan. The government has often promised to reform its customs regime, but overlapping areas of authority and excessive clearance requirements remain in place. Actual commodity appraisal and tariff assessment practices frequently differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict.

To secure tariff exemptions, businessmen must document that imported raw materials will be used in export production, and that the final product contains a minimum of 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 announced in November 1994 plans to present to Parliament an amendment to the Customs law, but the amendment, re-drafted four times between November 1994 and September 1995, was delayed due to a World Bank-mandated reorganization of the Customs Department. The government reportedly is again preparing a new customs law, which will include a number of WTO-consistent provisions.

6. Export Subsidies Policies

Under Central Bank regulations, export revenues are exempted from corporate income tax, sales tax and other social services taxes. Excluded from this provision are exports under bilateral trade protocols and phosphate, potash and fertilizer exports. The Central Bank also discounts export advances at 7.5 percent, up from six percent in 1994, and excludes them from outstanding lines of credit. Furthermore, it offers long term export financing for up to five years, and permits 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. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The corporation's primary objective is to provide guarantees to cover the risk of credits extended by the Jordanian banking system to small and medium-scale enterprises. The Export and Finance Bank, a new public shareholding corporation, was set up this year to provide commercial financing and loan guarantees to Jordanian exporters. The new bank is expected to offer its services on an open market basis.

7. Protection of U.S. Intellectual Property

Jordan is a member of the World Intellectual Property Organization (WIPO) and the Paris Convention for the Protection of Industrial Property. However, it is not a member of either the Berne Convention for the Protection of Literary and Artistic Works or the Universal Copyright Protection. Jordan is applying to become a member of the WTO in 1996, which would require that Jordan improve its level of intellectual property protection to meet obligations of the WTO/Agreement on Trade Related Intellectual Property Rights (TRIPs).

Lack of full intellectual property protection, particularly for copyrights, has resulted in lost opportunities for U.S sales to Jordan. The United States has submitted a draft intellectual property rights agreement to the Government of Jordan for consideration which proposes changes which could improve the level of bilateral IPR protection and would also further Jordan's progress towards meeting international norms.

Jordan's copyright law, passed by Parliament in 1992, represents the government's only recent effort to deal with the protection of foreign intellectual property. The Ministry of Culture's Department of National Libraries has drafted a new copyright law, which awaits the approval of the Council of Ministers and consideration by Parliament. The current copyright law deals with all aspects relating to exclusive rights to (1) copy or reproduce works, (2) translate, revise, or otherwise adapt or prepare program derivatives work, and (3) distribute or publicly communicate copies of the work. Royalties may be remitted abroad under licensing agreements approved

by the Ministry of Industry and Trade. However, only works of Jordanian and foreign authors who register their works inside the kingdom are protected.

The 1992 law does not have strong enforcement provisions, though the new draft law is expected to establish a stringent enforcement regime. The practice of pirating audio and video tapes for commercial purposes is widespread, with the government making no effort to intervene. Pirated books are sold in Jordan though few, if any, are published within the country. In January 1994, the government announced that it would issue strict measures on copyright protection, but so far has only issued procedural notes for existing regulations.

The Trademark, Patents and Designs Laws have not been amended since the early 1960's. Patents (product and process) must be registered with 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. Initial registration may be renewed once for a total period of protection 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 proven to be an exact duplication. Trademark regulations are considered adequate, but enforcement remains a problem.

New Technologies: Computer software piracy is rampant in Jordan's small, but growing, computer market. There is no Jordanian legislation providing for the protection of domestic or foreign-developed technologies, nor is there legislation providing for the proper registration of imported technology.

8. Worker Rights

a. *The Right of Association.*—Less than 15 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively.*—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 or Compulsory Labor.*—Compulsory labor is forbidden by the Jordanian constitution.

d. *Minimum Age for Employment of Children.*—Children under age 16 are not permitted to work except in the case of professional apprentices, 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 Ministry of Labor inspectors. There is no comprehensive minimum wage in Jordan, but the new labor law inserted a mandate to this effect. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Working conditions and minimum wages for foreign workers are stipulated in bilateral treaties, but are not consistently adhered to or strictly enforced. Jordan also has a workers' compensation law and a social security system which covers companies with more than five employees.

The new labor law, which went into effect in August 1995, protects workers from arbitrary or politically motivated dismissals, establishes a minimum wage mandate, extends maternity leave for women, and calls for a new social security system and law. Though the new law provides for stronger workers' protection than the old law, it does not provide for flexible treatment of foreign workers, skilled or unskilled, unless they are licensed to work by the Ministry of Labor and permitted to stay in Jordan by the Ministry of Interior. Furthermore, the new labor law falls short of many basic requirements of the ILO. Nonetheless, Jordan is an active member of the ILO and has officially expressed strong interest in complying with international protocols and agreements.

f. *Rights in Sectors With U.S. Investment.*—Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(2)
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		(2)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

KUWAIT

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	N/A	N/A	N/A
Real GDP Growth (percent)	22.4	1.1	3.0
GDP (at current prices)[2]	23,684	24,527	12,632
GDP by Sector:			
Agriculture	67	73	38
Energy and Water	N/A	N/A	N/A
Manufacturing	2,188	2,541	1,308
Construction	800	832	428
Rents	N/A	N/A	N/A
Financial Services	2,783	2,942	1,515
Other Services	N/A	N/A	N/A
Government/Health/Education	6,007	6,010	3,095
Net Exports of Goods & Services	3,211	4,536	2,336
Real Per Capita GDP (US$)	16,524	16,697	8,599
Labor Force (000s)	855	990	1,016
Unemployment Rate (percent)	0.5	0.5	0.5
Money & Prices (annual percentage growth):			
Money Supply (M2)	5.4	5.2	7.8
Base Interest Rate (percent)	5.7	6.5	7.25
Personal Savings Rate (percent)	N/A	N/A	N/A
Retail Inflation	5.0	3.0	3.0
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Exchange Rate (US$/KD)	3.32	3.40	3.35
Balance of Payments and Trade:			
Total Exports (FOB)	10,180	11,120	5,727

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Exports to U.S.	2,003	1,598	823
Total Imports (CIF)	6,910	6,560	3,378
Imports from U.S.	1,009	1,175	605
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	5,500	6,216	4,700
Debt Service Payments (paid)	N/A	N/A	1,516
Gold and Forex Reserves	3,480	3,867	3,721
Trade Balance	3,220	4,470	2,349
Trade Balance with U.S.	−994	−423	−218

[1] 1995 figures are for the first and second quarters only.
[2] For first half of year, annual rate would be $25,284. These statistics are based on the Central Bank of Kuwait's (CBK) "The Economic Report 1993" and "The Economic Report 1994." These reports reflect 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 1995 are U.S. Embassy estimates based on Central Bank of Kuwait data and general trends in the economy.

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.

Pre-war Kuwait's population was 2.3 million. Its current population is 1.83 million, of whom approximately 682,000 are Kuwait citizens. Kuwait's proven crude oil reserves amount to approximately 94 billion barrels i.e., ten percent of total world reserves, making Kuwait, potentially, a very rich nation well into the next century.

The Kuwaiti economy has been subject to several severe shocks over the past two decades. These include a massive increase in government intervention and control of the commercial economy during the late 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 95/96 will be in deficit by over 1.6 billion Kuwaiti dinars ($5.47 billion). Revenues will be KD 2.9 billion ($9.89 billion), virtually all from oil. Expenditures are KD 4.23 billion ($14.4 billion).

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.

2. Exchange Rate Policies

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. In practice, the Kuwaiti dinar has closely followed the exchange rate fluctuations of the U.S. dollar over the past year since the dollar makes up over half of the basket.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy. However, that role seems destined to decline as the country moves toward privatization and rationalization of the economy. Kuwait's economic system, modelled on a socialist welfare state, provides for a large measure of government regulation. These regulations restrict participation and competition in a number of sectors of the economy and strictly control the roles of foreign capital and expatriate labor. The Kuwaiti government also owns, outright, interests in many of the private companies in the country including most of the nation's banks. In some cases, the government bought these shares to ameliorate the Souk Al Manakh stock market collapse in 1982. In other

cases, government ownership was used to provide capital for local industries. The era of government ownership seems to be coming to an end, however. As a part of ongoing privatization efforts, the Kuwaiti government has begun to relinquish its interests in these companies, generally by offering its shares on the Kuwaiti stock exchange. Private foreign investors may participate in this privatization process by purchasing up to 40 percent ownership of Kuwait's national industries, subject to prior Kuwait government approval.

The Kuwaiti government is, by far, the largest employer of Kuwaiti citizens, 92 percent of whom work for the government or a government owned company. Through efforts to "Kuwaitize" its work force, the Government of Kuwait, in effect, has guaranteed employment for all Kuwaiti nationals. While this has had a social benefit, at least superficially, it has resulted in many government ministries being overstaffed and underproductive. It has also made it difficult for private companies to recruit Kuwaitis for meaningful, but rigorous, jobs.

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; this 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.

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).

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.

Biases also impact 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.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio, under the auspices of the Kuwait Investment Authority, that was variously valued at between $80 billion and $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 $35 billion to $39 billion.

Kuwait has begun repayment of a $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 $2.486 billion which will increase to $3.298 billion in 1996.

5. Significant Barriers to U.S. Exports

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for certain machinery and drilling equipment.

On July 1, 1992, the General Administration of Customs began collecting a 4 percent tariff on most imports. This flat rate is applied to the cost, insurance, and freight (C.I.F.) value of imported goods. Where imports compete with goods that are locally manufactured by "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis. In August 1992, for instance, the tariff on cigarettes was raised to 30 percent.

Kuwait, like other GCC member states, maintains restrictive standards which impede the marketing of U.S. exports. For example, shelf life requirements throughout the GCC for processed foods are in many cases far shorter than necessary to preserve freshness. Shelf life requirements are in fact so short that they cause otherwise edible, fresh U.S. products to be deemed by local merchants to be uncompeti-

tive with products that can be left on the shelves longer because they have been shipped from suppliers in countries closer to Kuwait than the U.S. Standards for many electrical products are based on those of the U.K., even though in many cases U.S. products could perform better at lower cost if standards were more flexible. Standards for medical, telecommunications and computer equipment tend to lag technological developments, with the result that Kuwait government tenders often specify the purchase of obsolete, more costly items.

The Kuwait government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. government generally opposes the attachment of any type of performance requirement to government tenders, and has recommended that the Government of Kuwait carefully weigh all the potential costs of an offset program. At the same time we have encouraged U.S. firms to familiarize themselves with the terms of this program so as to ensure the offset program does not become an undue obstacle to their business.

In June 1993, Kuwait announced that it would no longer apply the secondary boycott to firms that do business with Israel and the tertiary boycott with firms that do business with firms subject to the secondary boycott, but would continue to apply the primary boycott to goods and services produced in Israel itself. Kuwait has also taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. U.S. firms may still occasionally receive requests for boycott related information from private Kuwaiti firms or uninformed Kuwaiti public officials. In such cases, U.S. firms should advise the Embassy of the request, report the request to the U.S. Department of Commerce and take care to comply with all requirements of the U.S. antiboycott laws. Kuwait has received a one year waiver of "Brown Amendment" requirements. This waiver will expire in May 1996. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel.

For perishable imports arriving via air, land, or sea, customs clearance is prompt and takes about three hours. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer's premises after an undertaking that a sample has been submitted to the municipality for quality testing.

Customs' assessment of duty on the imported goods is usually based on the commercial invoice. If the customs officials, however, believe the declared value is not realistic, they may make their own assessment.

Importers do not need an import license for each product to be imported or for each shipment. An importer does, however, need to obtain an annual import license from the Ministry of Commerce and Industry which authorizes the import, on a multiple entry basis, of any amount of goods from any country during its one year term. To obtain this license, importing companies must fulfill the following conditions:

They must be registered in the commercial register at the Ministry of Commerce and Industry, as well as with the Kuwait Chamber of Commerce and Industry (KCCI); and

The Kuwait shareholding in the capital of the company must be at least 51%.

A special import license is required to import certain kinds of goods, i.e., firearms, explosives, drugs and wild animals. Some drugs require a special import license from the Ministry of Public Health. Imports of firearms and explosives require a special import license from the Ministry of Interior.

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 continues to lack an internationally acceptable level of IPR protection. That said, Kuwait has made more progress during 1995 than in the previous several years. Pressure from the U.S., along with a growing consciousness of the importance of IPR issues as trade and investment factors, has spurred this movement.

Kuwait has made significant strides toward improving its weak intellectual property rights (IPR) protection since April 1995. In January 1995, Kuwait acceded to membership in the World Trade Organization (WTO), and with it accepted the re-

quirement to phase in copyright and patent protection over five years in conformity with basic international standards.

Kuwait does not now have a comprehensive copyright law, although it appears to be moving in that direction. Draft legislation, if approved by the government and passed by the National Assembly, will extend copyright terms, ease conditionality for protection, and provide stiffer penalties for violators. The draft's chief deficiency is its failure to provide national treatment for foreign works not first published in Kuwait. The practical effect would be to exclude most U.S. works from protection under the law. In addition, the lack of national treatment does not conform to international norms, including those of WTO/Agreements on Trade-Related Aspects of Intellectual Property (TRIPs).

In April, tape shop owners selling U.S. products were ordered by decree to obtain certificates from a copyright holder certifying that they are the sole distributor of that product. While the decree has reduced piracy and enabled legitimate products to enter the market, it is not in accordance with international norms on national treatment and MFN. The decree may be inconsistent with draft copyright law or other trade laws.

In June 1995, Kuwait made another effort to improve its IPR position when, under the auspices of the Kuwait Institute for Scientific Research (KISR), it hosted a regional conference of the World Intellectual Property Organization (WIPO) on industrial property, licensing and technology transfer in the GCC countries. The conference was held under the patronage of Kuwait's Ministry of Commerce and Industry, even though Kuwait is not a WIPO member yet.

8. Worker Rights

a. *The Right of Association.*—Workers have the right, but are not required, to join unions. Nonetheless, the government restricts the right of association by prohibiting all workers from freely establishing trade unions. The law stipulates that workers may establish only one union in any occupational trade, and that the unions may establish only one federation. The International Labor Organization (ILO) has long criticized such restrictions. In 1995 about 50,000 people were organized in 14 unions, 12 of which are affiliated with the Kuwait Trade Union Federation (KTUF), the sole, legal trade union federation. The Bank Worker's Union and the Kuwait Airways Workers Union are independent. The government has shown no sign that it would accept the establishment of more than one legal trade union federation. The law stipulates that any new union must include at least 100 workers, of whom at least 15 are citizens. Both the ILO and the International Confederation of Free Trade Unions have criticized this requirement because it discourages unions in sectors employing few citizens such as the construction industry and domestic sectors.

The government's pervasive oversight powers further erode union independence. The government subsidizes as much as 90 percent of most union budgets, may inspect the financial records of any union and prohibits any union from engaging in vaguely defined political or religious activities. The law empowers the courts to dissolve any union for violating labor laws or for threatening "public order and morals." Such a court decision may be appealed. The Amir may also dissolve a union by decree. By law, the Ministry of Social Affairs and Labor is authorized to seize the assets of any dissolved union. The ILO has criticized this aspect of the law. Although no union has been dissolved the law subordinates the legal existence of the unions to the power of the State.

Foreigners constitute most of the work force and about a third of its unionized work force. Yet the law discriminates against foreign workers by permitting them to join unions only after 5 years of residence and only as nonvoting members. Unlike union members who are citizens, foreign workers do not have the right to elect their leadership. The law requires that union officials must be citizens. The ILO has criticized the 5-year residency requirement and the denial of voting rights for foreign workers.

KTUF administers an Expatriate Labor Office which is authorized to investigate complaints of foreign laborers and provides them with free legal advice. Any foreign worker may submit a grievance to the labor office regardless of union status.

The law limits the right to strike. It requires that all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution (see Section 6.b.). The law does not have any provision guaranteeing strikers that they will be free from any legal or administrative action taken against them by the State.

Two strikes occurred in 1995. The first was called by approximately 1,000 workers at the Kuwait Oil Company (KOC), a government-owned company, to pressure management to upgrade their classifications. The KOC persuaded the workers, all of whom were citizens, to return to their jobs, but did little to address the workers

complaints. The second strike was a 1-day sit-down action by nonunion workers at the labor camp of a private company who complained of inadequate food. The workers, all of whom were expatriates, ultimately received more and better food, but the four Bangladeshi leaders of the action were jailed for 21 days and then deported.

The KTUF belongs to the International Confederation of Arab Trade Unions and the formerly Soviet-controlled World Federation of Trade Unions.

b. *The Right to Organize and Bargain Collectively.*—Workers have the right to organize and bargain collectively, subject to the restrictions cited above. These rights have been incorporated in the Labor Law and have, according to all reports, been respected in practice.

The Labor Law provides for direct negotiations between employers and "laborers or their representatives" in the private sector. Most agreements are resolved in such negotiations; if not, either party may petition the Ministry of Social Affairs and Labor for mediation. If mediation fails, the dispute is referred to a labor arbitration board composed of officials from the High Court of Appeals, the Attorney General's office, and the Ministry of Social Affairs and Labor.

The Civil Service Law makes no provision for collective bargaining between government workers and their employer. Technically, wages and conditions of employment for civil service workers are established by the government, but in practice, the government sets the benefit scales after conducting informal meetings with officials from the civil service unions. Union officials resolve most issues at the working level and have regular access to senior officials.

The Labor Law prohibits antiunion discrimination. Any worker who alleges antiunion discrimination has the right to appeal to the judiciary. There were no reports of discrimination against employees, based on their affiliation with a union. Employers found guilty of antiunion discrimination must reinstate workers fired for union activities.

There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution prohibits forced labor "except in cases specified by law for national emergency and with just remuneration."

Foreign workers may not change their employment without permission from their original sponsors unless they have been in the country for over 2 years. Domestic servants are particularly vulnerable to abuses from this practice because they are not protected by the labor law. In many cases employers exercise some control over their servants by holding their passports, although the government prohibits this practice and has acted to retrieve passports of maids involved in disputes.

Domestic servants who run away from their employers may be treated as criminals under the law. However, the authorities usually do not enforce this provision of the law. In some reported cases, 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.*—The legal minimum age is 18 years for all forms of work, both full- and part-time. Employers must obtain permits from the Ministry of Social Affairs and Labor to employ juveniles between the ages of 14 and 18 in certain trades. Education is compulsory for children between the ages of 6 and 15. These laws are not fully observed in the nonindustrial sector, although no instances involving Kuwaiti children have been alleged. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports that some south Asian domestic servants are under 18, but falsified their age in order to enter Kuwait.

Juveniles may work a maximum of 6 hours a day on the condition that they work no more than 4 consecutive hours followed by a one-hour rest period.

e. *Acceptable Conditions of Work.*—The Ministry of Social Affairs and Labor is responsible for enforcing all labor laws. There is no legal minimum wage in the private sector. In 1995 the minimum wage in the public sector, administratively set by the government, was approximately $774 a month (226 dinars) for citizens and approximately $315 a month (90 dinars) for noncitizens.

The Labor Law establishes general conditions of work for both the public and the private sectors, with the oil industry treated separately. The Civil Service Law also prescribes additional conditions for the public sector. Labor law limits the standard workweek to 48 hours with 1 full day of rest per week, provides for a minimum of 14 workdays of leave each year, and establishes a compensation schedule for industrial accidents. Domestic servants, who are specifically excluded from the Private Sector Labor Law, frequently work long hours, greatly in excess of 48 hours.

The ILO has urged the government to guarantee the weekly 24-consecutive-hour rest period to temporary workers employed for a period of less than 6 months and workers in enterprises employing fewer than five persons. The law pertaining to the

oil industry provides for a 40-hour work week, 30 days of annual leave, and a sick leave. Laws establishing work conditions are not always applied uniformly to foreign workers. Labor law also provides for employer-provided medical care and compensation to workers disabled by injury or disease due to job-related causes. The law also requires that employers provide periodic medical examinations to workers exposed to environmental hazards on the job (i.e., chemicals, asbestos, etc.). The government has issued occupational health and safety standards; however, compliance and enforcement appear poor, especially with respect to unskilled foreign laborers. Employers often exploit workers' willingness to accept substandard conditions. Foreign workers, especially unskilled or semiskilled South Asian workers, frequently face contractual disputes, poor working conditions, and some physical abuse.

Workers have the right to remove themselves from dangerous work situations without jeopardy to their continued employment, and legal protections exist for workers who file complaints about such conditions. Latest available figures for occupational injuries show 1,472 such occurrences in 1994, primarily in the sectors of construction and building, manufacturing, hotels and restaurants, and transportation. To cut accident rates, the government periodically inspects installations to raise awareness among workers and employers and ensure that they abide by the safety rules, control the pollution resulting from certain dangerous industries, train workers who use new machines in specialized institutes, and report violations.

f. *Rights in Sectors With U.S. Investment.*—The only significant U.S. investment in Kuwait is in the partitioned neutral zone shared by 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. We expect the new "Equate" project to comply fully with GOK laws.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		30
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		−1
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		62

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

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

MOROCCO

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (billion 1980 DHs)	109.7	122.3	116.2
Real GDP growth (percent)	−1.1	11.5	−5.0
GDP (at current prices)	26,866	31,080	31,175

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
GDP by Sector:			
Agriculture/Fishing	4,039	6,055	4,400
Mining	525	557	596
Energy/Water	2,035	2,362	2,527
Manufacturing	4,848	5,343	5,717
Construction	1,281	1,296	1,387
Commerce	1,730	1,871	2,002
Other Services	5,541	6,164	6,596
Transport/Communications	3,371	3,692	3,950
Government	3,496	3,739	4,000
Per Capita GDP (US$)	1,051	1,192	1,172
Urban Labor Force (millions)	4.3	4.6	4.9
Urban Unemployment (percent)	16.0	16.0	16.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.9	10.2	5.6
Treasury Bill Rate (1 year)[2]	12.5	9.1	9.0
Private Savings Rate (pct GDP)	6.1	8.0	6.5
Retail Inflation	5.9	5.7	6.5
Wholesale Inflation	3.1	2.8	7.0
Exchange Rate (Year-end, DH/US$)	9.7	9.0	8.5
Balance of Payments and Trade:			
Total Exports (FOB)	3,696	4,000	4,300
Exports to U.S.	126	144	160
Total Imports (CIF)	6,657	7,185	7,500
Imports from U.S.	672	620	750
Aid from U.S. (fiscal year)	112	23	44
External Public Debt	20,783	21,712	21,000
Debt Service Ratio[3]	36.0	34.9	34.0
Foreign Exchange Reserves	3,936	4,610	3,800
Trade Balance	−2,962	−3,184	−3,200
Trade Balance with U.S.	−546	−476	−590

[1] Projections based on data available October 1995.
[2] Year-end rate, not change.
[3] As a percent of goods, nonfactor services and private transfers.

1. General Policy Framework

The Moroccan government has pursued an economic reform program since the early 1980s. It has restrained government spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs and liberalized the foreign exchange regime. These reforms have helped restore macroeconomic stability: the current account deficit, fiscal deficit and inflation rates are well below their early 1980s levels. Economic growth has been modest, with wide year-to-year fluctuations due largely to variations in rainfall.

Recently, however, the pace of the reform program has slowed somewhat. While Morocco has ratified the Uruguay Round Agreements, it is behind schedule in replacing non-tariff barriers with tariffs for a number of agricultural products. Financial sector reform has slowed. The fiscal deficit was well above target in 1994 and 1995, with the deficit financed largely by domestic borrowing and loans from the central bank. A reduction in the reserve requirement in late 1993 led to an acceleration in the growth of the money supply in 1994, although monetary growth slowed in 1995.

Policy slippages and a severe drought contributed to a widening fiscal deficit, rising inflation and falling foreign exchange reserves in 1995. The economy is expected to contract by about 5 percent, following approximately 12 percent GDP growth in 1994 and falling GDP in 1992 and 1993. Morocco's chronic merchandise trade deficit widened in 1994 and is likely to remain high in 1995. Receipts from remittances, tourism and foreign investment fell in 1994 and are expected to remain unchanged or grow only slightly in 1995.

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural (including fishing) sector, a large tourist industry, a growing manufacturing sector (especially clothing), and considerable inflows of funds from Moroccans working abroad. Most of Morocco's trade is with Europe, with France alone accounting for about a quarter of Morocco's imports and a third of its exports. The United States and Morocco signed a Trade and Investment Agreement in 1995.

2. Exchange Rate Policies

The Moroccan dirham (DH) 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

The 1992 foreign trade law 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 antidumping 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 1995 and nontariff barriers remain on a number of goods, notably cereals, vegetable oils and sugar. The government reimposed the import license requirement on bananas in 1995 in the face of rising imports.

Interest rate policy has also changed in recent years. In 1994 the government revised the interest rate ceiling on bank loans. The ceiling had previously been set as a 2.5 percentage point markup over the banks' average cost of funds, excluding the below-market-rates for some required holdings. The new ceiling is set as a three to four percent markup over the banks' average cost of funds, 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 income tax, and an individual income tax. The new investment code passed by the Parliament in October 1995 calls for reductions in the corporate and individual income taxes, and the reduction of import duties and elimination of the value added tax on certain capital goods and equipment.

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 34 percent in 1995, which is roughly what actual rescheduled debt service payments averaged in recent years. The Moroccan government does not foresee the need for further Paris Club rescheduling.

5. Significant Barriers to U.S. Exports

Import licenses: Morocco has eliminated import licensing requirements on a number of items in recent years. The government is committed to eliminating this requirement for certain agricultural products, notably cereals, vegetable oils and sugar, but has not done so as of October 1995. Licensing requirements remain for motor vehicles, used clothing and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. By 1993 the maximum tariff was 35 percent and the (trade-weighted) average tariff was about 13 percent. 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, vegetable oils and sugar following the elimination of licensing requirements and reference price systems on those goods. There is also a 10 to 15 percent surtax on imports of most goods.

Services barriers: In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993 the Moroccan government repealed 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 should be slaughtered according to Islamic law.

Investment barriers: The Moroccan government actively encourages foreign investment. The Parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries.

Government procurement practices: While Moroccan government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

Customs procedures: In principle customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

6. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme which allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme includes indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports which were subsequently transformed and exported.

7. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization (WIPO) and is a party to the Berne Copyright, Paris Industrial Property, and Universal Copyright Conventions, the Brussels Satellite Convention, and the Madrid, Nice, and The Hague agreements for the protection of intellectual property.

Copyright: Computer software is not specifically covered by Morocco's copyright law and violations of software copyrights are not uncommon.

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 has been increasingly enforced. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier.

8. Worker 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. Approximately ten percent of Morocco's 4.9 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. More narrowly focused strikes continue to occur, although strikers often encounter police harassment and arrest. Work stoppages are normally intended to advertise grievances and last 24–48 hours. A wave of limited duration strikes in schools, flour mills, banks, and the Port of Casablanca occurred in 1995. A strike at a food processing plant in March led to police intervention and the arrest of six unionists. In May, workers of the National Railroad began a two-month strike which severely disrupted train traffic in the country. It was the

first time in at least three years that a major Moroccan industry was affected by a strike featuring near universal participation.

b. *The Right to Organize and Bargain Collectively.*—While the protection of the right to organize and bargain collectively exists in the Constitution and Labor Law, the government does not always enforce the protections fully. The laws governing collective bargaining are inadequate. Collective bargaining has been a longstanding tradition in some parts of the economy, but the practice is not spreading.

The multiplicity of trade union federations creates competition to organize workers. As a result, 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 impel the government to act when it has not met its obligations under the law.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is prohibited in Morocco.

d. *Minimum Age for Employment of Children.*—The law prohibits the employment or apprenticeship of any child under 12 years of age. Special regulations cover the employment of children between the ages of 12 and 16. In practice, however, children are often apprenticed before age 12, particularly in the handicraft industry. The use of minors is common in the rug-making, textile, and tanning industries. Children are also employed informally as domestics and usually receive little or no wages. Child labor laws are generally well observed in the industrialized, unionized sector of the economy.

e. *Acceptable Conditions of Work.*—The minimum wage is about $170 per month and is not considered adequate to provide a decent standard of living for a worker and his or her family. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly effectively throughout the industrialized, unionized sectors where most workers earn more than the minimum wage. They are generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum work week with not more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. *Rights in Sectors With U.S. Investment.*—Worker rights in sectors with U.S. investment do not differ from those described above, all of which is in the formal, industrial sector of the Moroccan economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		63
Food & Kindred Products	30	
Chemicals and Allied Products	8	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment 0		
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		90

[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]

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1978 prices)	7,815.1	8,019.7	N/A
Real GDP Growth (percent)	6.4	2.6	N/A
GDP (at current prices)	11,164	11,299	6,406
GDP by Sector:			
Petroleum	4,064.1	4,039.6	2,438.0
Natural Gas	157.6	167.4	80.3
Mining	6.8	6.8	4.9
Oil Refining	99.6	96.5	71.5
Electricity and Water	153.9	157.8	92.8
Construction	498.7	455.0	160.4
Wholesale/Retail Trade	1,628.6	1,611.0	925.1
Government Services	1,995.8	2,036.7	1,108.1
Other Sectors	2,700.6	2,918.7	1,659.1
Less Imputed Bank Charges	−254.8	−299.8	−183.0
Per Capita GDP (US$/1978 base)	3,923.0	3,837.2	N/A
Labor Force (000s)	581.1	634.1	716.4
Unemployment Rate (percent)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	3.2	6.7	2.2
Weighted Average Interest Rate on Deposits	3.5	2.7	3.6
Personal Saving Rate	10.1	9.3	N/A
Consumer Price Inflation	0.9	−0.7	−2.4
Consumer Price Index (1990 base)	106.8	106.1	103.5
Exchange Rate (US$/rial)	2.60	2.60	2.60
Balance of Payments and Trade:			
Total Exports (FOB)	5,449.6	5,298.0	2,056.3
Exports to U.S. (non-oil)	42.1	53.6	N/A
Total Imports (CIF)	3,760.2	3,913.8	1,596.0
Imports from U.S.	331.8	263.6	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	0.7	0.8	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]	1,872.3	1,714.7	1908.9
Trade Balance	1,549.6	1,185.1	177.0
Trade Balance with U.S.[3]	−278.8	−194.0	N/A

Sources: Annual Report-1994 and Quarterly Bulletin, (June 1995), Central Bank of Oman; monthly statistical bulletins—Main Economic and Social Indicators, Ministry of Development.

[1]Unless otherwise indicated, 1995 figures are for the first six months only; in the "Balance of Payments and Trade" table, 1995 data is through May only. Percentages are not annualized.[2]Gold and foreign currency are Central Bank Reserves; 1995 data is from June 1995. 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.

1. General Policy Framework

The Sultanate of Oman is a small nation of just over 2.2 million people (including about 660,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman is a small oil producer and its economy moves in lockstep with the world price of oil. Although Oman has a per capita GDP of just under $5,400, a significant proportion of its population lives in rural poverty. Population growth of 3.5 percent for Oman surpasses economic growth and presents ever greater demand for costly desalinated water.

Oil revenue accounts for up to 80 percent of government revenues. Oman levies a corporate income tax applicable to Omani-owned firms of 7.5 percent on net profits. A graduated system of taxes applies to Omani/foreign joint venture companies

otherwise not eligible for tax holidays. There are no personal income taxes or property taxes. The government imposes substantial fees for labor cards and companies are liable for fines if they do not reach specified levels of "Omanization" by the end of 1996.

The 1994 budget deficit stood at 27 percent of net government revenues and was due to weak oil prices and resulting slowdown in revenues. The government finances the shortfall by drawing down on reserves and issuing development bonds, which were first sold in August 1991. Among major expenditure categories, about 35 percent of Oman's 1994 budget was spent on defense and security, 11 percent on the current and capital expenditures for Petroleum Development Oman (PDO), and seven percent on education. Overall expenditures were three percent higher in the first nine months of 1995 compared to the comparable period in 1994, but revenues were 8.7 percent higher. The budgetary goal for 1995 was to trim the deficit to 14 percent of revenues.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money 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 $2.60. Oman last devalued the rial in 1986.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both in terms of employment and as a purchaser of goods and services. Contracts to provide goods and services to the government, including the two largest purchasers, the national oil company and the Defense Ministry, are on the basis of tenders overseen by a tender board. Oman has fairly rigid health, safety and environmental standards (mostly British origin), which are inconsistently enforced.

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 grants five year tax holidays to newly-established industries, with the possibility of an additional five year holiday.

In 1995 the State Minister for Development Affairs reinforced the Sultanate's privatization policy by announcing that all new projects will be undertaken by the private sector. The Sultanate plans to convert companies currently owned by the government into mixed or private enterprises. Its five year plan, for 1996 through 2000, is expected to embody Oman's shift from reliance on public to private sector investment with state development spending reduced to one-third the current level. Oman sees its neighbors along the Indian Ocean as its natural market for its modest industrial sector.

With the Manah Power Project, the Sultanate became the first Gulf Arab nation to turn exclusively to the private sector to finance, build and operate a utility, with title reverting to the government after 20 years. Private development of a major LNG plant at Sur awaits firm sales agreements needed to secure financing. A fertilizer plant is among the spin-off industries expected to cluster around the LNG plant. Governmental approval appears to be the only remaining hurdle for a 1996 ground-breaking of a major aluminum plant. Pipeline projects compete for approval and financing. Oman's modern but still state-owned telecommunications sector will continue fiberoptic backbone expansion to Salalah. Beyond 1996, Oman has major coal deposits inland from Sur which remain undeveloped, has an outstanding natural port area at Salalah, and many sites for potential tourist facilities.

4. Debt Management Policies

Oman's sovereign debt is estimated at $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. In 1994 the Sultanate provided soft loans to Kazakstan.

5. Significant Barriers to U.S. Exports

In 1995 Oman substantially eased visa requirements by offering two year multiple entry visas to attract American tourists and business representatives.

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor and defense equipment. The licenses for general merchandise to be sold to the government are issued to the sole local 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 and without properly delimiting the scope of the agency agreement.

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. The Central Bank considers the bank market overcrowded and seeks the strengthening and consolidation of existing banks. The only U.S. banking institution in Oman is Citicorp, which is restricted to its existing single branch. Major U.S. accounting firms are well represented. Omani firms appear quite open to affiliating with U.S. firms.

Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. Its policy towards wholly or largely foreign owned firms is ambivalent and unpredictable. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the U.K., British standards have also been adopted for many items. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. firms sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements.

Despite requirements to "Omanize" the work force, the private sector depended in 1995 on an increasing number of expatriates for managerial, technical, and physical labor.

Oman continues to promote "Buy Oman" laws; this is a slow process as very few locally made goods meeting international standards are available. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but foreign goods and services bid by Omani agents receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities and then difficult for those firms to obtain a local agent and prepare tender documents.

Oman's customs procedures are complex, and there are complaints of sudden changes in the enforcement of regulations. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the U.A.E. seldom encounter problems.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture are geared to making those sectors competitive internationally. 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 an observer to the World Trade Organization.

7. Protection of U.S. Intellectual Property

Oman has a trademark law which the government enforces actively. Application for trademark protection requires a local agent. There is no patent or copyright protection, although draft laws await approval as of late 1995. A U.S. intellectual property rights delegation visited Oman in May 1992 and a World Intellectual Property Organization team advised the Omanis on a draft of the copyright law in early 1994.

The local audio and video cassette markets feature imported pirated copies. Pirated imports of computer software are also available. Nevertheless, the local agents of foreign companies seek to limit pirating when it reduces their opportunities for 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. Oman's labor law specifies that "it is absolutely forbidden to provoke a strike for any reason." A few strikes, however, have occurred. Oman joined the International Labor Organization (ILO) in 1994 and received a visiting ILO delegation in the fall of 1994. Legislation amending the labor law remains under review by the government, which may liberalize regulations with respect to the right of association and 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 representatives 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. (The latter group comprises two-thirds of the active labor force.) Work rules must be approved by the ministry and posted conspicuously in the work place. Any employee, Omani or expatriate, may file a grievance with the Labor Welfare Board. The board operates impartially and generally gives workers the benefit of the doubt in grievance hearings. Disputes that the board cannot resolve go to the Minister of Social Affairs and Labor for decision. Judgments against Omani employers are often difficult to enforce.

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

d. *Minimum Age for Employment of Children.*—Under the law, children, defined as those under the age of 13, are prohibited from working. Juveniles 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 that 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 work week is five days in the public sector and generally five and a half days in the private sector.

f. *Rights in Sectors With U.S. Investment.*—Oman's petroleum sector is the only part of the economy in which U.S. investment is more than minimal. U.S. participation in other sectors is only as a contracted supplier of goods and services. In the oil sector, U.S. firms adhere to Omani labor law and have considerable success in employing Omanis and providing a safe working environment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[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		(2)
Services		5

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	0
TOTAL ALL INDUSTRIES	168

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SAUDI ARABIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 prices)	115.7	N/A	N/A
Real GDP Growth (percent)	−0.7	N/A	N/A
GDP (at current prices)[2]	122.6	123.4	N/A
GDP by Sector:			
Oil	45.6	45.3	N/A
Private Sector	43.8	45.6	N/A
Government	33.2	32.5	N/A
Real Per Capita GDP (US$)[3]	7,000	6,800	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)[4]	−0.8	4.8	5.6
Base Interest Rate (percent)[5]	3.5	3.9	6.28
Wholesale Inflation[4]	0.6	1.4	6.99
Consumer Price Index[4]	0.8	0.5	4.67
Exchange Rate (SR/US$)	3.75	3.75	3.75
Balance of Payments and Trade:			
Total Exports (FOB)	42.5	45.6	N/A
Exports to U.S. (FAS)	7.4	7.6	N/A
Total Imports (FOB)	28.2	23.3	N/A
Imports From U.S. (FAS)	5.8	5.0	N/A
Aid From U.S.	0	0	0
Aid From Other Countries	0	0	0
External Government Debt[6]	4.5	1.8	0
Debt Service Payments (paid)	0	2.7	1.8
Gold and FOREX Reserves[4]	5.9	5.3	7.8
Trade Balance	14.3	22.3	N/A
Trade Balance With U.S.	1.6	2.6	N/A

[1] Embassy estimates.
[2] In purchasers' values.
[3] Based on official 1992 census data and current GDP.
[4] For 1995, data for the first half of the year.
[5] Average annual rate for one-month deposits, 1995 average for first half of the year.
[6] Outstanding foreign debt at end of year, 1994, and end of October, 1995.

1. General Policy Framework

Saudi Arabia has an open economy with a large government sector. Its regulations favor Saudis and citizens of the Gulf Cooperation Council (GCC) states. These preferences are Saudi Arabia - 2 reflected in virtually all government policies, including those affecting taxation, credit, investment, procurement, trade, and labor. However, the government's interest in promoting economic development, defense, and technology transfer ensures that the favoritism toward Saudis and the GCC does not block participation in the domestic economy by foreign investors.

Oil dominates the Saudi economy, comprising an estimated 37 percent of GDP, and 72 percent of budget receipts in 1994. Much of the non-oil GDP is tied to oil, as consumption and investment are dependent on oil receipts and services and supplies 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 past 12 years, with the shortfall for 1994 estimated at $9.5 billion -- 7.7 percent of GDP. The government originally financed its fiscal shortfalls by drawing down foreign reserves, 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, operations and maintenance. The government embarked on a major austerity program in 1994 -- reducing planned spending by 15 percent over the level for 1993. The austerity program continued in 1995, with a further 6.3 percent budget cut. King Fahd has publicly endorsed privatization since 1994, and the government has begun studying the sale of some state-owned firms.

The growth of the money supply is dictated by government fiscal operations and the growth of the economy. The Saudi Arabian Monetary Agency (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 influence local interest rates by conducting open market operations through repurchases of Saudi government development bonds and treasury bills. SAMA oversees a financial sector of 12 commercial banks, five specialized credit banks, and a variety of non-bank financial institutions.

2. Exchange Rate Policies

The Saudi Riyal (SR) is officially pegged to the IMF's Special Drawing Right (SDR) at a rate of SR 4.28255=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=USD 1. There are no taxes on purchases or sales of foreign exchange.

Saudi Arabia imposes no foreign exchange controls on capital movements by residents or nonresidents, beyond a prohibition against transactions with Israel, and, in accordance with UN resolutions, Iraq. 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 maintained price controls for basic utilities, energy, and agricultural products. Water, electricity, and petroleum products are heavily subsidized, with prices often substantially below the costs of production in order to share the wealth and spur development. In agriculture, the government slowed spending on its wheat purchase program in 1995 by reducing price supports and decreasing purchase quotas by 35 percent. However, the government still purchases wheat from local farmers at prices significantly above market levels.

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 rates on business incomes for foreign companies and expatriate shareholders of Saudi firms range from 25 percent on profits of less than $26,667 to a maximum rate of 45 percent on profits of greater than $266,667. Foreign investors receive 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 of 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 $50 billion in its issue and banking departments and an estimated $15 billion for the autonomous government institutions: the pension fund, the Saudi Fund for Development, and the General Organization for Social Insurance. Under SAMA's current definitions, only about $10–15 billion of its over $50 billion portfolio is available as the remainder is earmarked to guarantee the currency or

letters of credit. In addition to overseas assets managed by SAMA, Saudi Arabia's commercial banking system had a net foreign asset position of $15.5 billion at the end of 1994. The Saudi government began 1995 with a foreign debt of $1.8 billion from a syndicated loan signed in 1991, and by May 1995 it had retired 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. The Saudi government began 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 March 1995, total Saudi government domestic debt was about $90 billion, or 75 percent of GDP. This debt is owed to domestic creditors: the autonomous government institutions, commercial banks, and private Saudis.

5. Significant Barriers to U.S. Exports

Saudi Arabia is not a member of the World Trade Organization (WTO,, but a WTO working party has been formed to review its request for accession.

Saudi trade and investment barriers appear in a variety of forms. The foreign capital investment code requires that foreign investment be made in line with the nation's development priorities and that they include some technology transfer. While there are no legal limitations on percentage of foreign ownership, wholly foreign-owned ventures are unlikely to receive government approval. 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 GCC.

Saudi labor laws require companies registered in the Kingdom to give preference to Saudi nationals when hiring.

In 1994, the GCC states publicly announced that they would no longer enforce the secondary and tertiary aspects of the Arab League boycott of Israel. However, a limited number of Saudi entities still make reference to the boycott in their commercial documentation. U.S. firms often have to remove these references before they sign the documentation.

Import licensing requirements designed to protect domestic industries or restrict importing to nationals can present additional barriers. Contractors of civilian projects cannot import directly and instead must purchase equipment and machinery from Saudi agents. Saudi Arabia requires a license to import agricultural products.

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. 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 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 subsidy programs specifically targeted at exports, though many of its industrial incentive programs indirectly support exports.

7. Protection of U.S. Intellectual Property

Saudi laws are generally adequate, though the 1990 copyright law does not explicitly extend to foreign works. However, since Saudi Arabia's 1994 accession to the Universal Copyright Convention, government authorities have extended reciprocal protection for UCC signatories. Enforcement efforts vary from sector to sector.

Copyright enforcement efforts have been relatively successful in video markets. Over the past year most overt sales of pirated videos have ceased. However, piracy of software among retailers and end-users is widespread, and enforcement efforts are sporadic. Further, the sound recordings market is dominated by pirated products. Most of the pirated sound recordings are produced locally.

Saudi Arabia enacted a patent law in 1989. The criteria for determining whether an invention is patentable are similar to those applied in the United States. The law permits compulsory licensing of patented products or processes, with or without compensation to the patent holder for non-use of the patent or for public policy reasons. The Saudi patent office has yet to issue its first patent.

Saudi Arabia'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. However, during 1995, the Ministry of Commerce undertook several well publicized and aggressive enforcement actions against importers of counterfeit U.S. goods. The companies involved reported good cooperation from Saudi authorities.

In general, software and audio piracy continue to cause the most significant losses to U.S. firms. Losses due to ineffective patent protection are difficult to judge. In the pharmaceutical sector, stringent health regulations have controlled the problem of pirated products.

8. Worker Rights

a. *The Right of Association.*—Government decrees prohibit the formation of labor unions and strike activity.

b. *The Right to Organize and Bargain Collectively.*—This right is not recognized in Saudi Arabia.

c. *Prohibition on 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.

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.*—Conditions of work at major U.S. firms and joint-venture enterprises 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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		157
Total Manufacturing		920
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	3	
Electric & Electronic Equipment	5	
Transportation Equipment	0	
Other Manufacturing	33	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		159

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	103
TOTAL ALL INDUSTRIES	2,717

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

SYRIA

Key Economic Indicators [1]

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

	1993	1994 (Est)	1995 (Est)
Income, Production and Employment: [2]			
Real GDP (1985 prices)	9,835	10,130	10,535
Real GDP growth (percent)	4	3	4
GDP (at current prices)	35,582	36,649	38,115
GDP by Sector:			
Agriculture	10,959	12,822	14,745
Energy and Water	N/A	N/A	N/A
Manufacturing	5,031	5,283	5,547
Construction	1,496	1,795	2,154
Rents	N/A	N/A	N/A
Financial Services	1,303	1,498	1,723
Other Services	727	835	961
Government/Health/Education	3,566	4,100	4,716
Net Exports of Goods & Services	N/A	N/A	N/A
Real per capita GDP ('85 base)	660	658	648
Labor Force (000s)	3,900	4,300	4,700
Unemployment Rate (est., percent)	7	8	10
Income, Production and Employment (Neighboring Country rate) [3]			
Real GDP (1985 prices)	2,623	2,702	2,810
GDP (at current prices)	9.488	9,773	10,164
GDP by Sector:			
Agriculture	2,922	3,419	3,932
Energy and Water	N/A	N/A	N/A
Manufacturing	1,342	1,409	1,480
Construction	399	479	574
Rents	N/A	N/A	N/A
Financial Services	347	399	459
Other Services	194	223	256
Government/Health/Education	951	1,093	1,258
Net Exports of Goods & Services	N/A	N/A	N/A
Real per capita GDP ('85 base, US$)	176	175	173
Money and Prices:			
Money supply (M2) (million SP)	202,141	245,000	270,000
Base Interest rate [4]	9	9	9
Personal Saving Rate	8.0	8.0	8.0
Retail Inflation	16.0	15.0	15.0
Wholesale Inflation	12.0	10.0	10.0
Consumer Price Index	564	649	746
Exchange Rate (SP/US$):			
Official	11.20	11.20	11.20

Key Economic Indicators[1]—Continued

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

	1993	1994 (Est)	1995 (Est)
Blended	26.60	26.60	26.60
Neighboring Country Rate	42.00	42.00	42.00
Offshore market	47–52	48–52	47–51
Balance of Payments and Trade:			
Total Exports (FOB)	3,153	3,516	3,668
Exports to U.S.	144	72	70
Total Imports (FOB)	3,467	4,160	4,640
Imports from U.S.	186	198	245
Aid from U.S.	0	0	0
Aid from Other Countries	1,358	701.9	N/A
External Public Debt	19,400	N/A	N/A
Debt Service Payments (paid)	N/A	N/A	N/A
Foreign Exchange Reserves	N/A	N/A	N/A
Gold Holdings (million troy oz.)	0.833	0.833	0.833
Trade Balance	−314	−644	−972
Trade Balance with U.S.	−42	−126	−175

[1]The Syrian government has not published its final 1994 statistics as of the completion of this report. Further, the government's 1993 economic statistics remain estimates. All figures in the preceding tables are estimates based on the government's 1993 estimates, other sources in the public domain, and this Embassy's own calculations.

[2]Millions of U.S. dollars converted at the official rate of 11.2 Syrian pounds/U.S. dollar.

[3]Millions of U.S. dollars converted at the "Neighboring Country" rate of 42 Syrian pounds/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 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. Increases of U.S. exports to Syria have been limited by continued U.S. Government foreign policy sanctions and remaining Syrian 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 $1.7 billion in 1992, $1.3 billion in 1993, and $701.9 million in 1994, have gone to rehabilitate Syria's telecommunications and electrical power generation sectors.

Prospects for Syrian private sector investment and imports continue to improve. Liberalization actions of the Syrian government permit private exporters to retain foreign exchange export earnings to finance permitted imports for manufacturing inputs, as well as other listed products. Although retaining a monopoly on "strategic" imports, such as wheat and flour, the government continued to expand the list of permitted imports during 1995, including items, such as bananas, tuna fish, and sardines, which were formerly reserved for public sector importing agencies.

The United States imposed trade controls in 1979 as a response to Syria's involvement with terrorism. The U.S. Government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technology. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is ineligible for the Export Enhancement Program (EEP) and the Commodity Credit Corporation (CCC) program in all agricultural products, rendering U.S. wheat flour 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, due to Syria's maintenance of its large mili-

tary establishment, both here and in Lebanon, and its continued heavy (but currently much reduced) subsidization of basic commodities and social services, the last three budgets have been in deficit ($261.9 million in 1993, $311.9 million in 1994, and $292.9 million in 1995).

Given Syria's anachronistic and nationalized financial system and inability to access international capital markets, monetary policy remains a passive tool used almost exclusively to cover fiscal deficits. All four of the country's banks are nationalized. Interest rates are fixed by law. Most rates have not changed in the last several years. Current real interest rates are negative.

2. Exchange Rate Policies

The Syrian government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian pounds/dollar for certain government and public sector transactions, and for valuations of some customs tariff rates. A second exchange rate, called the "Blended Rate," 26.6 SP/dollar, can be used by the United Nations, international organizations, and diplomatic missions. A third rate, the "Neighboring Country" rate, 42 SP/dollar, applies to most state enterprise imports except certain basic commodities and military/security items. Recently, a minor change was made which allows foreign tourists to pay for hotel rooms at the 42 SP/dollar rate, instead of the 11.2 SP/dollar rate. The actual effects of this decision on hotel prices have been negligible. Outside Syria, a thriving offshore market for Syrian pounds operates in Lebanon, Jordan, and the Arab Gulf countries. During 1995, the value of the pound fluctuated between SP 47 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 at the "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria may convert cash, travelers checks and personal remittances at the "Neighboring Country" rate.

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 42 SP/USD rate. In the agricultural sector, production of strategic crops (cotton, wheat) is controlled through a system of procurement prices and subsidies for many inputs, including seeds, fuel, and 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 continued to increase farm gate prices to encourage production and to enable state marketing boards to purchase larger quantities of locally produced commodities. In 1995, the local government determined price of wheat was above the extremely high 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 that of the public sector in 1993 (figures for 1994 have not yet been published). 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.

Syrian tariffs are very high, exceeding 200 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets are 64 percent. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread.

4. Debt Management Policies

Syrian authorities have been unwilling to provide data on military debt, as well as accumulated obligations under bilateral clearing arrangements. Guaranteed civilian debt is officially estimated at approximately $3.4 billion . Syria's total external public debt is estimated to be $18 billion, most of which is military debt to the

former Soviet Union. Very little Syrian commercial debt is held by U.S. companies, but sovereign debt to the U.S. Government is about $250 million.

The Syrian government remains badly in arrears on payments to official export credit agencies and bilateral donors, including USAID. Syria has been in violation of the Brooke Amendment since 1985. Syria also has an unresolved problem of outstanding arrears to the World Bank.

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 U.S. 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 flour stipulate that bids are invalidated after one month, if no contract is signed.

Syria participates in the Arab League boycott of Israel. Many Syrian government tenders contain language unacceptable under U.S. anti-boycott law. Public sector agencies accept positive certification from U.S. companies in response to tender application questions. Once interested parties obtain tender documents, they should 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 (202/377–2381).

Given the centralized structure of the economy, specific "buy national" laws do not exist. Strategic goods, military equipment, 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 government agencies. 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. The right to repatriation of capital is legally recognized. The investment law of 1991 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 criminalizes unauthorized foreign exchange transactions, continue to pose serious barriers.

Government monopolies in banking, insurance, telecommunications, and other public sector service industries hinder 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, although exceptions may be negotiated on a case-by-case basis. This requirement has inflated company operating costs and contributed to the departure of more exploration companies in 1994/1995.

6. Export Subsidy Policies

Export financing and subsidies are not available to either the public or the private sectors. In fact, some exports are subject to special taxes. Recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the unfavorable official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to complete export transactions have enhanced the foreign exchange position of these companies. The SARG is exporting barley and wheat at the prevailing high international prices. The export prices are still below the cost to the SARG at the neighboring country rate of exchange.

7. Protection of U.S. Intellectual Property

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. Syria is a member of the Paris Convention for the 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, and is also concerned with unauthorized hotel video performances, which are said to be common. However, only a few hotels have internal video systems.

8. Worker Rights

a. *The Right of Association.*—The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are each elected by their respective union's membership.

The Syrian government contends that there is in practice trade union pluralism. However, workers are not free to form labor unions independent of the government-prescribed structure. Legislation granting the right of any trade union to be governed by its own by-laws without those rules having to correspond to those of the GFTU remains pending.

Strikes are not prohibited (except in the agricultural sector), but in practice they are effectively discouraged. There were no reported strikes in 1995, as was also the case in 1994 and 1993. 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 members of the Doctors' Association 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.

Since the U.S. Trade Representative suspended Syria's GSP privileges in June 1992, the Syrian government has not made sufficient legislative and practical changes regarding workers rights to prompt a reconsideration of the suspension.

b. *The Right to Organize and Bargain Collectively.*—In the public sector, unions do not normally bargain collectively on wage issues, but union representatives participate with the representatives of the employers and the respective ministry to establish sectoral minimum wages according to legally prescribed cost-of-living levels. Workers serve on the board of directors of public enterprises, and union representation is always included on the boards. Unions also monitor and enforce compliance with the labor law.

In the private sector, unions are active in monitoring compliance with the laws and ensuring workers' health and safety. Under the law, unions may engage in negotiations for collective contracts with employers. The International Labor Organization's experts committee noted Syria's continuing resistance to changing a section of the labor code which allows the Minister of Labor and Social Affairs to refuse to approve a collective bargaining agreement and to annul any clause likely to harm the economic interests of the country. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests or those of their members (individually or collectively) in cases involving labor relations.

Union organizations may also claim a right to arbitration. In practice, due to the relatively small size of Syrian private sector enterprises, labor disputes are generally settled informally. 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 of discrimination against union members (see also section 6.E)

There is no union representation in Syria's seven free trade zones, and firms in the zones are exempt from Syrian laws and regulations governing the hiring and firing of workers, though some provisions concerning occupational health and safety, work hours, and sick and annual leave do apply.

c. *Prohibition of Forced or Compulsory Labor.*—There is no Syrian law banning forced or compulsory labor. Such practices may be imposed in punishment, usually in connection with prison sentences for criminal offenses, under the Economic Penal Code, the Penal Code, the Agricultural Labor Code, and the Press Act. There were no reports of forced or compulsory labor involving children or foreign or domestic workers.

d. *Minimum Age for Employment of Children.*—The minimum age for workers in the public sector is 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. Anecdotal evidence suggests that the use of child labor increased during 1995, in response to tougher financial times for the lower classes and the need for additional sources of income. The government tends to be less effective in rural areas and tends not to question minimum age violations within small family businesses where, for example, sons take up their fathers' crafts.

e. *Acceptable Conditions of Work.*—As mandated in the constitution, the government legislatively establishes minimum and maximum wage limits in the public sector and sets limits on maximum allowable overtime for public sector employees. The minimum wage is not sufficient to allow a worker and his family to survive, so many workers take additional jobs, open businesses, or rely on extended families for support. According to the 1959 Labor Act, minimum wage levels in the private sector are set by the Minister of Social Affairs and Labor. His decision is based on recommendations from a committee including government officials, employer representatives, and employee representatives.

Syrian labor law extensively regulates conditions of work, including rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job-related injuries. They are commonly employed in small private firms and businesses in order to avoid the costs of permanent employees who are well protected, even against firing.

The statutory work week consists of six 6-hour days, although in certain fields in which workers are not continuously busy, a 9-hour day is permitted. Labor laws also mandate a full 24-hour rest day per week. Public laws mandate safety standards in all sectors, and managers are expected to implement them fully. A 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 eleven 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 eleven 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.*—We know of no new direct U.S. investment in Syria in 1994 - 1995. Several U.S. firms have oil and gas concessions in

Syria, but none are currently producing. U.S. firms are required to comply with Syrian labor law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		367
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		6
TOTAL ALL INDUSTRIES		373

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

TUNISIA

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1990 base)	12,350	12,785	13,233
Real GDP Growth (percent)	2.6	3.4	3.5
GDP (current prices)	15,422	15,946	16,524
GDP by Sector:[2]			
Agriculture	2,003	2,089	2,136
Manufacturing	2,211	2,813	2,970
Non-manufacturing	1,575	1,680	1,774
Tourism	936	1,248	1,297
Services	3,993	4,788	5,056
Real Per Capita GDP (US$)	1,413	1,463	1,496
Labor Force (millions)	2.56	2.77	2.84
Unemployment Rate (percent)	16.2	16.4	16.4
Money and Prices:			
Money Supply	2,866	3,097	3,034
Commercial Interest Rates (max)	14	14	14
Savings Rate (percent—average)	8	8	8
Consumer Price Index	196.2	205.4	217.3
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate (US$/TD)	1.02	1.02	1.08
Balance of Payments and Trade:			
Total Exports	4,073	4,696	5,000
Exports to U.S.	31.0	49.2	60.0
Total Imports	6,366	6,647	7,500
Imports from U.S.	415.2	437.7	N/A
Aid from U.S. (FY basis)	14.9	1.1	0

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	7,655	8,675	9,430
Debt Service Payments	1,391	1,637	2,065
Gold Reserves	4.4	4.4	4.4
Foreign Exchange Reserves	816	1,133	1,300
Balance of Payments	102.0	204.4	188.0

[1] Tunisian government projections from available six-month data.
[2] These indicators are the most relevant to the Tunisian economy.

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 a projected $2 billions in 1995. Tourism may bring approximately $1 billion of foreign exchange into Tunisia this year. The manufacturing sector comprises about 15 percent of GDP, and consists primarily of textiles and food processing. Agriculture accounts for about 15 percent of output. A severe drought caused widespread crop failures in 1995, forcing the Government of Tunisia to scale back its prediction of about 12 percent growth in the agriculture sector. The cereal harvest is down 66 percent from the below average harvests of 1993. Olive oil exports will also decrease substantially in 1995 due to the drought. The non-manufacturing industrial sector accounts for 12 percent of GDP, and consists principally of phosphate mining and oil and gas production.

In 1996, the government is predicting less than 4 percent GDP growth. This is down from the 5 percent predicted at the start of the year, and is largely the result of the poor agricultural harvests. Inflation rose from 5 percent in 1994 to 6 percent in 1995. Imports also increased by 13 percent. However, exports posted a strong performance, growing 16 percent. Imports of food, particularly cereals, will increase in 1996.

Tunisia officially completed a seven-year structural reform program in 1993 which emphasized export-led growth through price and import liberalization, financial sector reform, the attraction of foreign investment, and diversification of the economy. Tunisia continues to liberalize its economy although many observers criticize the slow pace of implementation of economic reforms. In 1995, the privatization program made some progress including a 15 percent privatization of Tunisair, the national airline. However, many enterprises remain under state control. The Tunisian government also continues to subsidize or control prices on key consumer goods such as bread and gasoline.

The United States and Tunisia have two major bilateral treaties affecting trade: a double taxation treaty in which each country has agreed to avoid double taxation on corporations or individuals active in both countries; and a bilateral investment treaty dealing with the treatment of American companies in Tunisia, expropriation, remittance of profits, and international arbitration of disputes.

Fiscal policy: The 1995 Tunisian government budget stressed austerity. Government policy also calls for an expanding economy to cope with deficit problems. However, due to increased interest payments on foreign debt, the deficit will likely increase from two percent of GDP in 1994 to three percent in 1995. The Tunisian government traditionally finances its budget deficit through the domestic issue of government bonds, and can use the internal capital market as a source of finance.

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. Inflation increased from five percent in 1994 to six percent in 1995, primarily due to higher prices for transportation and food.

2. Exchange Rate Policies

In March 1994, Tunisia instituted a foreign currency market, allowing individual banks to set currency prices and trade with other banks. 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 $2.47, to a low in 1993, when it equaled $0.98. In 1995, the rate has been about one Tunisian dinar equals $1.07.

3. Structural Policies

Tax policies: Tunisia acceded to full GATT membership in 1990. In accordance with this agreement, the Government of Tunisia limited the maximum tariff rates to 43 percent. In addition, Tunisia charges a Provisional Compensatory Duty (PCD) of up to 30 percent on imported goods which compete with domestic production. The PCD was accepted during GATT negotiations as a temporary duty, but remains in effect after the scheduled phase-out date of 1994. While the original items selected for the PCD in 1992 have been reduced as scheduled, others have been added each year at the 30 percent rate. All imports are charged a two percent customs declaration fee.

Virtually all EU goods will have duty-free access to the Tunisian markets within 12 years, as a result of a recently-concluded free trade agreement with the EU. Duty free access of some EU goods will begin on January 1, 1996.

In addition to customs duties, some internal taxes affect U.S. goods. The Tunisian government charges a consumption tax of up to 500 percent on imported or domestically produced luxury goods. A Value Added Tax (VAT) of 6 to 29 percent is charged on all domestically produced or imported goods, with a few exceptions.

Investment policy: Tunisia's Unified Investment Code, effective January 1, 1994, replaced five former codes and 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 special legislation.

The new code applies to all 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, investors receive a tax exemption on 35 percent of reinvested profits and income. The customs duty on imported capital goods is now 10 percent. Purchases of capital goods are exempt from the 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 ten 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 Policies

In 1995, total public debt service increased by 24 percent. External debt service increased by 23 percent while service on internal public debt increased by 20 percent. The increase is primarily due to an increase in contract repayments to international financial institutions. The World Bank and the African Development Bank hold about 53 percent of this debt.

The Central Bank closely monitors the level of external debt and tries to keep it as low as possible. 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

The only significant barrier to US exports is the 17 percent tariff assessed on all cotton imports from non-Arab countries. The United States traditionally enjoys a trade surplus with Tunisia.

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 concessionary aid financing. However, France, Italy and others maintain credit facilities to promote exports of their products. In addition, EXIM financing is available for government

sales. Exporters to private concerns may be able to take advantage of a new Citibank credit facility.

Increased export potential exists in environmental goods and services, construction equipment, telecommunications, packaging machinery and medical equipment.

6. Export Subsidies Policies

Tunisia has a wide range of export subsidy policies, including a special Export Promotion Fund (FOPRODEX). FOPRODEX provides preferential financing and funding to improve the productivity and competitiveness of companies producing for export. Only companies legally incorporated in Tunisia are eligible for these subsidies; these companies 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 this organization.

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. *The Right of Association.*—The Tunisian constitution and the labor code give workers the right to form unions and strike. Dissolution of a union requires action by the courts. The central labor federation, the Tunisian General Federation of Labor (UGTT), is legally independent, but operates under some government restrictions and receives government subsidies. About 15 percent of the work force are UGTT members. The UGTT is a member of the International Confederation of Free Trade Unions and various regional groupings.

b. *The Right to Organize and Bargain Collectively.*—Tunisian workers have the right to organize and bargain collectively. The government must approve the collective bargaining agreements, but cannot modify them. Agreements must be published in the official journal to become legally valid. Agreements between unions and individual firms may not be concluded unless an applicable agreement already exists in that sector. Anti-union action by employers is illegal. Temporary workers have the same rights, but enforcement is more difficult. Terminated workers may appeal before a tribunal.

c. *Prohibition of Forced or Compulsory Labor.*—Compulsory labor is not specifically prohibited, but there have been no reports of its practice in recent years.

d. *Minimum Age for Employment of Children.*—The minimum employment age is 15 years in manufacturing and 13 years in agriculture. Tunisian children must attend school until age 16. Social Affairs Ministry inspectors verify that employers comply with the minimum age law. Children between the ages of 14 and 18 may not work from 10 PM to 6 AM. Children over 14 may work a maximum of 4.5 hours a day, but the combination of school and work may not exceed seven hours. Despite the law, young children often work in agriculture and as vendors.

e. *Acceptable Conditions of Work.*—The minimum monthly industrial wage is roughly $164 for a 48-hour week and $144 for a 40-hour week. The minimum agricultural wage is $4.50 per day. Tunisia's labor code sets a standard 48-hour week with one 24-hour rest period in all sectors except energy, transportation, petrochemical, and metallurgy which have a 40-hour week.

The Social Affairs Ministry is responsible for health and safety standards in the work place. Enforcement is more strict in Tunis than in other regions, where the informal sector is more important. Working conditions tend to be better in export-oriented firms. Workers may avoid dangerous situations without jeopardizing their employment.

f. *Rights in Sectors With U.S. Investment.*—Workers employed by companies with U.S. investment have the same rights as all other Tunisian workers. Tunisian labor law makes no distinction between wholly-Tunisian companies and companies with a foreign interest.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		12
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		23

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

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

UNITED ARAB EMIRATES

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	31,353	31,692	N/A
Real GDP Growth (percent)	−1.4	1.1	3.3
GDP (at current prices)	35,743	36,580	N/A
GDP by Sector:			
Crude Oil	12,897	12,301	N/A
Other Production	22,846	24,279	N/A
Agriculture	860	907	N/A
Industry	7,125	7,499	N/A
Mining and Quarrying	106	114	N/A
Manufacturing	2,887	2,942	N/A
Electricity and Water	808	844	N/A
Construction	3,323	3,598	N/A
Services	14,862	15,873	N/A
Trade	3,815	4,050	N/A
Transport/Storage/Communication	2,158	2,260	N/A
Finance and Insurance	1,726	1,872	N/A
Real Estate	2,476	2,719	N/A
Government Services	4,191	4,435	N/A
Other Services	1,124	1,216	N/A
Imputed Bank Service Charges	−628	−679	N/A
Civilian Employment (000s)	856	907	N/A
Unemployment Rate (percent)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply	5.0	1.5	N/A
Average December Dirham Interest Rates:			
Lending	7.07	7.61	N/A
Time Deposits	3.25	4.89	N/A

Key Economic Indicators—Continued

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

	1993	1994	1995[1]
Personal Saving Rate	N/A	N/A	N/A
Consumer Prices	4.7	4.6	N/A
Wholesale Inflation	N/A	N/A	N/A
Consumer Price Index (1985=100)	129.1	135.0	N/A
Exchange Rate (Dirhams/US$)	3.671	3.671	3.671
Balance of Payments and Trade:			
Total Exports	23,645	25,280	N/A
Exports to U.S.	827	556	N/A
Total Imports	19,613	21,792	N/A
Imports from U.S.	1,804	1,852	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	0	0	0
Debt Service Payments	N/A	N/A	N/A
Official International Reserves	6,104	6,659	N/A
Trade Balance	4,032	3,487	3,920
Balance with U.S. (95 Jan-Aug)	−1,037	−1,117	−1,031

1. General Policy Framework

The United Arab Emirates (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. In 1994, nominal per capita GDP in Abu Dhabi, the emirate with the most oil, was $24,712. Ajman Emirate's real per capita 1994 GDP of $5,156 was the lowest of the seven.

Economic activity in the UAE depends on developments in the oil sector, which accounted in 1994 for 34 percent of GDP, 79 percent of export revenue, and 77 percent of government revenues. The Abu Dhabi and Dubai governments sustain the non-oil sector largely by spending oil revenues on development projects.

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 provided 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 businesses, 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 owned 100 percent by a UAE national. 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 located in the Jebel Ali Free Zone (JAFZ) are exempted from agency/distributorship, sponsorship, and national ownership requirements. Companies with less than 51 percent national ownership which market products in the UAE outside the JAFZ are treated as foreign firms and subject to these requirements.

Certain sectors are closed to new private sector investment, including oil and gas operations and related industries, and power generation and water desalination.

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 property on behalf of nominal UAE 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. Indications are however that the government drew on reserves and borrowed from local banks in which it has an ownership share in order to finance deficits in 1994 and 1995.

Privatization is under discussion but no projects have been implemented. Many observers believe that privatization will be introduced in the near to medium term, possibly in conjunction with the offset program, under which contractors providing equipment to the UAE armed forces are required to invest in non-military projects in the UAE. These investments in turn are required to return profits equal to 60 percent of the value of the original sale within seven years of the award of the contract.

The emirate and federal governments own full or partial shares of business, financial, and industrial enterprises. Possible candidates for early privatization are government-owned bank shares. The Central Bank in 1994 drafted a bill authorizing an official stock exchange, but the cabinet had not approved it as of December 1995.

The principal function of the UAE Central Bank is to regulate commercial banks. Within the past three to four years, the Central Bank has expanded the scope of its regulatory activities, through issuing circulars and then following up with enforcement measures. The Central Bank's ability to regulate is limited however by the fact that some of the commercial banks are owned by interests that are more powerful than the Central Bank and over which it has little or no authority.

The Central 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 economic statistics by the government of 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 Policies

Since November 1980, the UAE dirham, though formally pegged to the IMF's special drawing rights (SDR) at the rate of one SDR to 4.76190 dirhams, with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent, has been kept in a fixed relationship with the U.S. dollar. Since November 1980 the buying and selling rates for the U.S. dollar have been 3.6690 dirhams and 3.6730 dirhams, respectively.

Commercial banks are free to enter into foreign exchange transactions, including forward contracts, at rates of their own choosing. In practice, these rates have followed closely the rate quoted by the 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 1995 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 no significant changes in structural policy in 1995 that would affect demand for U.S. exports. There were several notable changes in the regulatory framework in 1994. On August 1, 1994 the UAE began to levy a new customs duty of four percent on the CIF value of non-exempt imports. 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, medicines and pharmaceuticals, many different kinds of food, items to be re-exported, farm machinery, construction materials, and newspapers and periodicals.

Other changes in 1994 included a ban on issuance of licenses authorizing the establishment of 42 different kinds of small business; increased fees for various services, 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. As of late 1995, it appears that the decision on family members will be reversed.

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 exempted UAE governmental borrowers from the limits and permitted larger exposures in interbank lending. Foreign banks, which had objected to the 1993 circular, were somewhat more satisfied with the changes.

The UAE began issuing ten-year, multiple entry visas to American passport holders in 1994 and to permit expatriate residents of other GCC countries of certain nationalities, including Americans, to enter the UAE without having first obtained visas.

The UAE levies income taxes on foreign banks and oil companies. There are no other 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 or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but 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, 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), is currently financing 29 development projects in 13 Arab countries worth almost 2.8 billion dirhams ($763 million).

5. Significant Barriers to U.S. Exports

The regulatory and legal framework favors local over foreign business. There is no uniform 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. 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 have exclusive rights. Sponsors can be replaced, if the sponsor agrees. This happens, but not often.

Claims resolution is not a problem, because foreign companies tend not to 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 and is seeking membership in the World Trade Organization.

7. Protection of U.S. Intellectual Property

The UAE is on USTR's Special 301 watch list for intellectual property rights violations. In its October 1995 review, USTR cited inadequate protection of computer software and pharmaceutical patents as reasons for maintaining the UAE on the

watch list. In 1992, the UAE passed three laws pertaining to intellectual property: a copyright law, a trademark law, and a patent law. The government began enforcing the copyright law on September 1, 1994, and as a result the sound recording and motion picture market is free of pirate products. The government began to register trademarks and patents in 1993. The UAE patent law protects processes, not products. As of late 1995, the UAE cabinet had approved a proposal to adhere to the Paris Convention on industrial property and was considering an amendment to the patent law that would extend full protection to pharmaceutical patents.

8. Worker Rights

a. *The Right of Association.*—There are no unions and no strikes. The law does not grant workers the right to organize unions or to strike. Foreign workers, who make up the bulk of the workforce, risk deportation if they attempt to organize unions or to strike.

b. *The Right to Organize and Bargain Collectively.*—The 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. Labor laws do not cover government employees, domestic servants and agricultural workers. The latter two groups face considerable difficulty in obtaining assistance with resolving disputes with employers. While any worker may seek redress through the courts, this puts a heavy financial burden on those in lower income brackets.

In Dubai's Jebel Ali Free Zone, the same labor laws apply as in the rest of the country.

c. *Prohibition of Forced or Compulsory Labor.*—Forced or compulsory labor is illegal and not practiced. However, some unscrupulous employment agents bring foreign workers to 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. The Department of Labor enforces the regulations. Other regulations permit employers to engage only adult foreign workers. In 1993 the government prohibited the employment of children as camel jockeys and of jockeys who do not weigh more than 45 kilograms. The camel racing association is responsible for enforcing these rules.

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 should provide a worker and family a minimal standard of living. As noted in section 8.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 eight hours a 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 ten national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 45 degrees Celsius (112 degrees Fahrenheit).

Most foreign workers receive either employer-provided housing or housing allowances, medical care, and homeward passage from their employers. Most foreign workers do not earn the minimum salary of $1,370 a month required to obtain a residency visa for their families. (The UAE raised the minimum from about $1000 to $1370 in August, 1994.) Employers have the option to petition for a one year employment ban for any foreign employee who leaves his job without fulfilling the terms of his contract.

The Ministry of Health, the Ministry of Labor and Social Affairs, municipalities, and civil defense units enforce health and safety standards. The government requires every large industrial concern to employ a certified occupational safety officer. An injured worker is entitled to fair compensation. Health standards are not uniformly observed in the housing camps provided for foreign workers. Workers' jobs are not protected if they remove themselves from what they consider to be unsafe working conditions. However, the Ministry of Labor and Social Affairs may require employers to reinstate workers dismissed for not performing unsafe work. All workers have the right to lodge grievances with ministry officials, who make an effort

to investigate all complaints. However, complaints and compensation claims are backlogged because of inadequate staffing and budget for the ministry.

Complaints may be appealed to the ministry and ultimately to the courts. However, many workers choose not to protest for fear of reprisals or deportation.

The press periodically carries reports of abuses suffered by domestic servants, particularly women, at the hands of some employers. Allegations have included excessive work hours, non-payment of wages, and verbal and physical abuse. In 1995, several highly publicized cases involving Filipina maids highlighted the conditions of domestic workers of all nationalities.

f. *Rights in Sectors With U.S. Investment.*—Worker rights in U.S.-invested sectors do not differ significantly from those in the economy in general.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		3
Food & Kindred Products	0	
Chemicals and Allied Products	(2)	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		156
Banking		(1)
Finance/Insurance/Real Estate		−28
Services		39
Other Industries		45
TOTAL ALL INDUSTRIES		589

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SOUTH ASIA

BANGLADESH

Key Economic Indicators

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

	1993	1994	1995[1]
Income, Production and Employment:			
Real GDP (1985 prices)	14,310	14,650	15,307
Real GDP Growth (percent)	4.48	4.61	5.0
GDP (at current prices)	24,212	25,884	28,094
GDP by Sector:[2]			
Agriculture	7,378	7,873	8,545
Energy and Water	434	515	559
Manufacturing	2,354	2,575	2,795
Construction	1,449	1,503	1,632
Rents	N/A	N/A	N/A
Financial Services	482	N/A	N/A
Other Services	12,597	13,418	14,563
Government, Health and Education	N/A	N/A	N/A
Net Exports of Goods and Services	−1,526	−1,667	−2,305
Real Per Capita GDP ('85 BPS)	123	124	126
Labor Force (000s, Formal)	4,800	4,800	4,800
Unemployment Rate (percent)	30	30	30
Money and Prices (annual percentage growth):			
Money Supply (M2)	11.0	15.0	16.0
Base Interest Rate (percent)	7.00	6.00	5.5
Personal Saving Rate (percent)	3.80	3.80	3.8
Retail Inflation (percent)[3]	1.33	1.83	4.94
Wholesale Inflation (percent)	N/A	N/A	N/A
Consumer Price Index[3]	734.00	747.4	784.3
Exchange Rate (taka/US$—annual average):			
Official	39.15	40.00	40.80
Parallel	40	41	44
Balance of Payments and Trade:			
Total Exports FOB	2,138	2,346	3,046
Exports to U.S. (CY)	886	[4]1,080	1,000
Total Imports CIF	3,983	4,072	5,251
Imports from U.S. (CY)	245	234	250
Aid from U.S.[5]	73.5	95.1	94.8
Aid from Other Countries	1,675	1,559	1,400
External Public Debt	13,178	14,027	15,000
Debt Service Payments (paid)	505.6	512.4	475
Gold and Foreign Exchange Reserves	2,125	2,771	3,074
Trade Balance	−1,930	−1,845	−2,401
Balance with U.S.	641	[4]846	850

[1]The Bangladesh fiscal year is July 1-June 30. Data for FY 95 is mostly provisional.
[2]FY 95 sectoral data is estimated on the basis of sectoral GDP contribution of FY 94.
[3]Inflation figures are based on Consumer Price Index. Base year is Bangladesh FY 1973/74.
[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 U.S. fiscal year.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed nations. With 120 million people and an estimated GDP for 1995 of $28 billion,

per capita GDP on a current basis is $232. However, a low cost of living gives Bangladesh an estimated purchasing power parity per capita GDP of $1,250. Many factors have inhibited the growth of Bangladesh's overwhelmingly agricultural economy. These include government interference with the free market economy, a rapidly growing labor force which cannot be fully absorbed by agriculture, a low level of industrialization, underdeveloped energy resources, and inefficient power supplies. The state presence in the economy continues to be large. The level of investment from both private and public sources, estimated at about 14 percent of GDP, is among the lowest in Asia. A major policy objective, feeding the rapidly growing population, is supported by a high degree of self-sufficiency in rice production, supplemented by significant U.S. wheat exports to Bangladesh under both PL–480 programs and commercial sales.

Bangladesh's democratically-elected government continued its macroeconomic stabilization program throughout 1995, although there was some loosening of controls towards the end of the year as the country moved into a pre-election period. The overall economic condition of the country remained stable, although rising inflation and a greater divergence between official and parallel exchange rates have generated concern about the longevity of this new-found stability. The real GDP growth rate is running at about five percent, a bit better than the 4.6 percent rate registered in 1994.

Inflation rose to about five percent in 1995, an increase over 1994's rate of 1.8 percent. The government increased central bank lending rates towards the end of the year in a move to rein in inflation. Foreign currency reserves rose to a record $3.4 billion in April 1995 before falling after a second semester import boom to $2.7 billion (still sufficient to cover about five months of imports). In response, the government devalued the taka against the dollar in stages by a total of 1.6 percent in late 1995. In 1995 Bangladesh continued its reductions in tax and tariff rates, as well as its liberalization of foreign exchange controls, as the country continues its drive toward a more open, modern, and market-oriented economy.

Government expenditures, composed of current expenditures and the annual development budget, stayed under control during FY 1995 (the Bangladesh fiscal year runs from July 1 to June 30). Domestic revenues, buoyed by improved tax revenue performance, exceeded current expenditure by 36 billion taka (equivalent to $907 million). This surplus provided the government contribution to the country's development budget, termed the "Annual Development Program" (ADP), estimated at 111.5 billion taka ($2.8 billion) in FY 1995. While most funding for the ADP comes from donors, the Finance Ministry claimed to have maintained Bangladesh's contribution at about 40 percent in 1995. Tax revenues reached a record high of 111.1 billion taka ($2.8 billion), more than double the amount collected in 1989.

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 militancy, political unrest, and a deteriorating law and order situation continued to discourage domestic and foreign investors. Investment, which stagnated at 12 to 13 percent of GDP in the 1985–1992 period, has increased slowly to over 14 percent in 1995. It is generally held that only an investment/GDP ratio of 17 to 18 percent and a GDP growth rate over seven percent can begin to alleviate poverty on a large scale. It is estimated that about half of Bangladeshis live below the poverty line, as measured by caloric intake. Bangladesh's current GDP growth rate of five percent, while above the population growth rate of about two percent, is not enough to increase living standards appreciably.

Bangladesh became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

At present, the Bangladesh central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of a weighted basket of economic indicators. 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. Over a five-month period, however, foreign currency reserves ebbed from a high of $3.4 billion at the end of April 1995, to $2.7 billion at the end of September 1995. Also, the parallel market exchange rate, until recently nearly at par with the official rate, now stands at a seven percent premium over the official rate. These two phenomena suggest that the taka is overvalued. The taka is fully convertible

for most current account transactions. The official exchange rate on January 12, 1996 was taka 41.85 to 1 USD.

U.S. products and services have become generally more price competitive in 1995 in the Bangladesh market as 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 travelers are limited by law to taking no more than $3,000 out of the country per year.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF) program, meeting all fiscal and monetary targets. Broad money supply growth has been about 11 percent in FY 1993, 15 percent in FY 1994, and 16 percent in FY 1995. The value added tax (VAT) continued to generate higher than predicted revenues for the government, with anticipated collections in FY 1995 up 18 percent over the FY 1994 level (an increase of about 13 percent in real terms). Government current spending has also been curbed through controlling the level of subsidies provided to several money-losing parastatals, and an attempt has been made to shift more central government resources towards capital or development expenditures. Inflation increased to about five percent in 1995, due to higher rice prices, higher import costs from a depreciating taka, and the growth in money supply. Inflation was under two percent in 1994.

While Bangladesh met ESAF monetary and fiscal targets, progress on other important economic reforms has been halting. Efforts at reform often run afoul of vested interest groups, such as public sector labor unions or highly protected 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 refining, are perennial money losers, which drain the treasury. Their militant unions have succeeded in setting high wages which their private sector counterparts often feel compelled to meet out of fear of union action. Ongoing jute sector reforms under a World Bank adjustment credit, though moving more slowly than anticipated, have resulted in layoffs, and are expected to lead to the closure of some public sector jute enterprises and the privatization of others. Similar reforms planned for the textile sector are pending.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline). Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay, the nearly dysfunctional banking sector in Bangladesh is the subject of a reform program supported by the U.S. Agency for International Development (USAID) and the World Bank.

4. Debt Management Policies

Assessed on the basis of outstanding principal, Bangladesh's external public debt was $15 billion as of June 1995, up seven percent from the previous year's level of $14 billion. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e., one or two percent interest, 30-year maturity, 20-year grace period), the net present value of the total outstanding debt is significantly lower than its face value. Bangladesh currently owes approximately $729 million to the United States, primarily incurred under the old PL–480 Title I and III food programs. Debt servicing for FY 1995 was $475 million. Debt service as a percentage of current receipts has fallen from 21 percent in FY 1989 to 12 percent in FY 1994 (latest available figure).

5. Significant Barriers to U.S. Exports

Since 1991, the government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia, although Bangladesh continues to raise relatively high shares of its government revenue from customs duties. Tariff reform was accelerated significantly in 1994 and 1995 by the compression of customs duty rates into a range of 7.5 to 15 percent for most products and the maximum rate being set at 50 percent (with the exception of certain luxury goods, for which duties remained in excess of 100 percent). The trade-weighted average import tariff rate was 28 percent in FY 1994, compared to 40 percent in FY

1992. Government estimates indicate that the weighted average tariff rate was brought down to about 21 percent during the first half of FY 1995.

In July 1992 the government replaced an import sales tax with a trade-neutral VAT, leaving only the 2.5 percent "advance income tax" to be removed to make customs duty the only protective instrument for most imports. The number of products subject to an import ban or restriction was further reduced in 1995 and import procedures have been streamlined. The formerly cumbersome procedure for opening letters of credit also has been simplified. Bangladesh is a member of the World Trade Organization.

Customs procedures are lengthy and burdensome, and further complicated by rent-seeking activity. Recently the system of customs valuation was supplemented by the acceptance of pre-shipment inspection certificates from four international inspection companies. However, customs' acceptance of these certificates is not yet mandatory.

Drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, and an uncertain law and order situation. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is completely deregulated and the government has significantly streamlined the investment registration process. However, while registration has been simplified, domestic and foreign investors typically must obtain a series of approvals from various government agencies in order to implement their projects. Bureaucratic red tape, compounded by rent-seeking activity, slows decision-making. Existing export processing zones (see below), which are designed to facilitate investment, are still too small to have changed significantly the overall investment picture in the country.

U.S. investment stock in Bangladesh is very small, totaling less than $12 million. It is concentrated in the capitalization and physical assets of a life insurance company, two commercial banks, and a few other service and manufacturing operations. The figure is likely to increase as U.S. natural gas exploration and development firms begin their activities.

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 assisted by bonded warehousing and back-to-back letter of credit facilities for imported cloth and accessories. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Government financed interest rate subsidies to exporters have been reduced in stages over the last five years. Bangladesh has established export processing zones (EPZs) in Chittagong and Dhaka. 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.

7. Protection of U.S. Intellectual Property

Bangladesh has outdated intellectual property rights (IPR) laws, and an unwieldy system of registering and enforcing intellectual property rights. Intellectual property infringement is common, particularly of pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts.

Bangladesh has been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985. The WIPO and the United Nations Development Program (UNDP) are funding automation and training for the Bangladesh government's patent office. Bangladesh has begun reform programs to increase the level of IPR protection in order to meet its obligations under the WTO TRIPs (Trade-related Aspects of Intellectual Property Rights) Agreement. In consultation with WIPO, the Bangladesh government began drawing up IPR reforms laws in 1992 and has hired consultants to review the IPR draft laws in view of WTO-TRIPs provisions. The completion of the review and subsequent modification and vetting of the drafts are expected to take at least a year, with parliamentary passage taking further time. As a result, Bangladesh is unlikely to have effective IPR laws before mid-1997.

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. Bangladesh civil servants forbidden to join unions, such as teachers or nurses, have joined associations which perform functions similar to labor unions.

b. *The Right to Organize and Bargain Collectively.*—Unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling party. Pitched battles between members of rival labor unions occur regularly; hundreds were injured in labor clashes in 1995 at various large jute and textile mills, as well as in the inland water transport sector. Some unions regularly engage in intimidation and vandalism. General strikes continue to be used by the political opposition to pressure the government. General strikes cause economic and social disruption through lost production and, more significantly, transportation delays causing missed shipping dates for exports.

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.

Workers in Bangladesh's two export processing zones (EPZs) are prohibited from forming unions, though some workers have skirted the ban by setting up associations. The government has stated that labor law restrictions on freedom of association and formation of unions in the EPZs will be lifted by 1997. In the rapidly growing garment industry, there have been numerous complaints of workers being harassed and fired in some factories for trying to organize workers.

c. *Prohibition of Forced or Compulsory Labor.*—The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to enforce laws against forced labor, but resources for enforcement are slim, and these laws are not rigorously enforced.

d. *Minimun Age for Employment of Children.*—Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangladesh's, the extra income obtained by children, however meager, is sought after by many families.

In 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 dismissed in 1993. In July 1995, Bangladesh garment exporters signed a memorandum of understanding that promises to eliminate child labor in the garment sector and set up schools and a stipend program for the displaced child workers.

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. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient for minimal, basic needs. The "Factories Act" nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many Bangladeshi employers.

f. *Rights in Sectors With U.S. Investment.*—Manufacturing firms with U.S. investment have unions and bargain collectively. Worker layoffs or the threat of reductions-in-force can cause serious management-labor disputes. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the Bangladesh government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry. In some cases, workers in these firms enjoy shorter working hours than those working in comparable indigenous firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/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]

FY ending March 31	1993/94	1994/95	1995/96 [1] (proj.)
Income, Production and Employment:			
Real GDP (1981 prices) [2]	83.3	88.5	88.7
Real GDP Growth (percent)	3.5	6.2	5.5
GDP (at current prices) [2]	250.7	293.9	319.8
GDP by Sector (percent estimated):			
Agriculture	29.8	30.2	30.0
Energy and water	2.6	2.6	2.7
Manufacturing	21.9	22.0	22.3
Construction	4.4	4.3	4.5
Rents	5.0	5.0	5.1
Financial Services	6.4	6.5	6.6
Government, Health and Education	29.9	29.4	28.8
Real per capita GDP (US$, 1981 prices)	93.6	97.5	95.8
Labor Force (millions)	332.2	340.0	348.0
Unemployment Rate (percent)	22.5	22.5	22.5
Money and Prices (annual percentage growth):			
Money supply (M3)	18.4	21.2	18.0
Base Interest Rate	19.5	17.5	18.0
Personal Saving Rate	16.0	17.0	17.5
Retail Inflation	7.5	10.0	9.5
Wholesale Inflation (percent)	8.4	10.9	9.0
Consumer Price Index (1982=100)	258.0	284.0	311.0
Exchange Rate (US$/Rupee):			
Official average rate	31.37	31.37	33.00
Parallel	33.0	33.0	35.0
Balance of Payments and Trade:			
Total Exports FOB [3]	22.2	26.2	32.0
Exports to U.S.	4.6	5.3	5.6
Total Imports CIF [3]	23.3	28.3	36.0
Imports from U.S.	2.8	2.3	2.6

Key Economic Indicators—Continued

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

FY ending March 31	1993/94	1994/95	1995/96[1] (proj.)
Trade Balance[4]	−1.1	−2.1	−4.0
Balance with U.S.	1.8	3.0	3.0
Aid from U.S. (US$ million)[4]	141.0	142.0	155.0
Aid from Other Countries/institutions	3.3	3.5	3.5
External Public Debt[5]	91.0	95.3	97.9
Debt Service Payments	8.3	10.8	12.3
Foreign Exchange Reserves	15.5	21.1	19.0

[1]1995 figures are all estimates based on data available in October 1995. 1995 projections reflect a rupee devaluation of approximately 5 percent.
[2]GDP at market prices.
[3]Merchandise trade.
[4]Figures refer to Indian Fiscal Years: April 1-March 31.
[5]Includes Rupee Debt of $10 billion to the former USSR.

Sources: Government of India Economic Survey, Government of India budgets, Reserve Bank of India Bulletins, and World Bank.

1. General Policy Framework

While the post-1991 economic reform program has substantially liberalized India's trade and investment regime, progress has slowed in 1995. Faced with vocal domestic opposition groups, and weakened by state-level political reverses, the Indian government has focused more on consolidation and implementation of previous initiatives than on the introduction of new initiatives. With India's economy the fifth largest in terms of purchasing power, home to 15 percent of the world's population, and claiming a middle class of between 100–250 million, the pace of reforms and the anticipated impact on domestic growth rates are major concerns for U.S. businesses looking to sell to or invest in India.

India's pre-1991 economy was marked by slow growth, a highly protected market, and state control of the economy's "commanding heights." By 1995, the reform program had achieved remarkable macroeconomic stability and could claim a number of tangible results, highlighting the break with India's socialist past. Foreign exchange reserves grew from $1.1 billion in June 1991 to $19.0 billion in October 1995 (a shortage of foreign exchange reserves helped trigger the 1991 reforms). India has enjoyed consistent double-digit growth in foreign trade, both exports and imports for the past four years. Foreign investment, both direct and portfolio, has increased dramatically and will contribute to industrial growth in FY 1995–1996 of 10–12 percent, and GDP growth of about 5.5 percent, in rupee terms. Support for the liberalization program has remained strong from the middle and upper-classes that have been its early beneficiaries.

However, the pace of reform has slowed as several major legislative initiatives stalled and some high visibility foreign investments encountered stiff opposition. All major parties accept the need for economic reform, but there is an increasingly strident debate regarding the pace and manner of reform, especially its impact on marginal segments of society and the role of foreign investment. The more emotional debates exhibit a strain of economic nationalism and suggest the existence of a strong constituency that, while accepting economic liberalization, does not, necessarily, equate that to or support "globalization". However, there appears to be little or no support for rolling back reforms or previously approved initiatives.

India has had limited success in reducing the government's unsustainably high fiscal deficit, which also contributed to the 1990–91 economic crisis. After reaching nine percent of GDP in FY 1990/91, the fiscal deficit fell to 5.7 percent of GDP in FY 1992/93, but rebounded to 7.3 percent of GDP in 1993/94. Buoyant receipts and better expenditure controls kept the deficit at 6.7 percent of GDP in 1994/95, despite domestic spending pressures that forced the government to exceed its six percent target.

The Indian Government set a budget deficit target of 5.5 percent of GDP for FY 1995/96, but may find it difficult to meet this target due to pressures for increased spending in the run-up to 1996 general elections and lower than expected receipts from the sale of shares in government-owned corporations. The Finance Minister and Reserve Bank of India (RBI) Governor reached an agreement last year to place a Rs. 90 billion ($2.9 billion) cap on the issuance of ad hoc Treasury Bills, a principal source of inflationary money creation, with this form of deficit finance to be abolished by FY 1997–98. However, this agreement has been breached during the

current fiscal year due to insufficient demand for government securities being offered to the market.

During the first six months of FY 1995/96, M3 rose by an estimated 17.5 percent. The RBI hopes to contain M3 growth at 16 percent for the year. Government and private forecasters now predict an average retail inflation rate of about 9.5 percent during FY 1995–96, following inflation of 10.6 percent in the previous year. RBI credit to the central government increased 13.4 percent during the first half of FY 1995/96. The government reduced the Statutory Liquidity Ratio (SLR) from 31.5 in 1994 to 29 percent in 1995. Further cuts are planned as the government seeks to avoid crowding out private borrowers.

India became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

India has used exchange rate policy to improve its export competitiveness. On March 1, 1993, the exchange rate was unified and the rupee was made fully convertible on the trade account. On August 20, 1994, the rupee was made fully convertible on the current account. Controls remain on capital account transactions, with the exception of non-resident Indians (NRIs) and foreign institutional investors (FIIs), but the gradual removal of controls is expected as foreign exchange reserves grow and India's capital markets are integrated more completely into international financial markets. The RBI intervenes in the foreign exchange market to maintain a stable rupee. It maintained a rupee value of approximately Rs. 31.5 per dollar since March of 1993, but allowed a significant adjustment of 10.5 percent in September-October 1995. The market rate on January 12, 1996 was Rs. 35.76 per dollar.

3. Structural Policies

Price policies: Central and state governments still regulate the prices of most essential products, including foodgrains, sugar, edible oils, basic medicines, energy, fertilizers, water, and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past four years, while prices for nitrogenous fertilizer, rural electricity and irrigation remain well below market levels. However, acute power shortages are forcing several states to counter 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 in government outlets are usually regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Controls on basic drug prices have been a particular problem for U.S. pharmaceutical firms operating in India, although government policy changes sharply reduced the number of price-controlled formulations in 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 1994, indirect taxes accounted for about 70 percent of central government tax revenue. India's direct tax base is very narrow, with only eight million taxpayers out of a total population of about 930 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 rate cuts will depend on the success of efforts to improve tax 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 sectors, such as a 5-year tax holiday for infrastructure projects. The removal of quantitative restrictions on some imports has been accompanied by massive reduction in tariff rates.

Regulatory Policies: The "New Industrial Policy" announced in July 1991 considerably relaxed the government's regulatory hold on investment and production decisions. Under the new policy, industrial licenses are only required for six "strategic" areas, and some restrictions remain for manufacturing in areas which are reserved for the public sector or small-scale industry. The government has announced liberal policies for the pharmaceutical and telecommunications industries. Local sourcing requirements have also been abolished and most plant location strictures have been removed.

Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. Establishing an industrial plant still requires as many as 92 different types of authorizations, and 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. Furthermore, while international competition for capital is gradually forcing India's federal and state governments to implement more investor-friendly regulatory policies, domestic politics often encourage state governments to take a hard line against foreign "exploitation."

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. Financial sector reforms continue, although reform of the insurance sector has been put on hold pending the 1996 general elections. Progress in the power generation and telecommunications sectors has been slower than hoped.

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 payments, 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 1995, reserves were bouncing back to approximately $19.0 billion.

External Debt Structure: India's total external debt (including ruble and defense-related debt) reached $95.2 billion by mid-1995, making India one of the world's largest debtors. India's debt-service payments exceeded $8.0 billion in each of the last five years (FY 1990/91–FY 1994/95). 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 government has adopted a number of measures designed to reduce the volatile short-term component of its external debt. The addition of new debt has slowed substantially, as the government has maintained a tight rein on foreign commercial borrowing and defense-related debt and has encouraged foreign equity investment rather than debt financing. As a result, the ratio of total external debt to GDP fell from 39.8 percent in FY 1992/93 to about 31 percent in FY 1994/95.

Relationship With Creditors: India has an excellent debt servicing record. While U.S. and Japanese rating agencies downgraded Indian paper in 1990, as India encountered balance of payments 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 upgraded India's rating in 1994, and both Standard and Poor's and Moody's are, reportedly, considering upgrading India's foreign currency debt from its current BB+ rating (S&P). Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an Extended Financing Facility with the IMF since the expiration of its Standby Arrangement 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, and rose to $2.3 billion in 1994 from $2.0 billion in 1991, according to U.S. Department of Commerce trade data. Until 1992, India's very complex import regime featured twenty-six 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 has steadily reduced the import-weighted tariff from 87 percent to 33 percent at present. Imports of phosphate fertilizer, kerosene and LPG were opened to the private sector in 1993. Seven 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 items which cannot be imported, 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 certain electronics, pesticides and insecticides, fruits, vegetables and processed consumer food products, breeding stock, most pharmaceuticals and chemicals,

and products reserved in India for small-scale industry. This licensing requirement serves in many cases as an effective ban on importation.

Services Barriers: The Indian government runs many major service industries either partially or entirely, but the controls are loosening. Entry of foreign banks remains highly regulated, but approval has been granted for the operation of 17 new foreign banks or bank branches since June 1993. Furthermore, financial authorities have permitted some opening to joint ventures in non-bank financial services during the past two years. While India does not allow foreign nationals to practice law in its courts, some foreign law firms have liaison offices in India. The Indian Government is now reviewing its monopoly on life and general insurance with a view to future liberalization and reform of the industry. Foreign and domestic joint ventures participate in advertising, accounting, car rental and a wide range of consultancy services. Furthermore, policy reforms introduced in late 1994 and partially implemented in 1995 offer foreign firms a major role in modernizing India's telecommunications sector, an opening which has been aggressively pursued by U.S. firms.

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. Opponents of foreign investment have tried to apply these laws selectively to U.S. firms, however, these attempts have not withstood judicial scrutiny. 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 requirements for equity investments of up to 51 percent in 35 industries covering the bulk of manufacturing activities have been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. Through 1994 it had rarely denied requests for up to 100% foreign equity, but foreign firms report 100% stakes have been more difficult to obtain in 1995.

All sectors of the Indian economy are now open to foreign investors, except those deemed to be security concerns, such as defense, railways and atomic energy. As a result, the $12 billion in foreign investment approved between January 1991 and August 1995 exceeded the nominal dollar value of all foreign investment approved during the previous four decades, with U.S. investors taking the lead. In August 1995, the state government of Maharashtra repudiated agreements with the U.S.-owned Dabhol Power Company for an electricity generation project. Arbitration proceedings were initiated, and the company and the state government have renegotiated the terms of the project.

The U.S. and India have not negotiated a bilateral investment treaty, although an agreement covering the operations of the Overseas Private Investment Corporation (OPIC) remains in force. In 1992, India became the 113th country to announce it would join the Multilateral Investment Guarantee Agency (MIGA), an agency of the World Bank.

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 frequent. However, in October 1995, the government announced that India would switch to the Harmonized System of commodity classification, removing ambiguities and providing more transparency to the Export-Import Policy. No firm date has been given for the implementation of this change.

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 gradually improving 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 U.S. Special-301 investigation initiated in 1991 determined that Indian IPR practices—particularly inadequate patent protection—unduly burdened U.S. commerce. In response, in April 1992 the U.S. removed all Indian-origin chemical and pharmaceutical products from duty-free entry under the Generalized System of Preferences (GSP).

India has proposed new trademark and patent legislation designed to bring India into compliance with its current WTO TRIPs (Trade-related Aspects of Intellectual Property Rights) obligations. These pieces of legislation have passed India's lower house, but have been stalled by political opposition in India's upper house, and are sufficiently controversial that they are unlikely to be passed before the expected 1996 election. A constituency including some Indian pharmaceutical companies, technology firms, and educational/research institutions favors an improved patent regime, including full product patent protection. However, it is unlikely that India will implement full patent protection sooner than required under the TRIPs agreement. Supporters of the less controversial Trademark bill hope for passage in late 1995 or early 1996.

Under pressure from domestic industry, India strengthened its copyright law in May 1994, placing it on par with international practice. The new law entered into force in May, 1995. The copyright legislation is consistent with the Berne Convention on copyright, to which India is a party. Subsequently, India's designation as a "priority foreign country" under Special-301 was downgraded to placement on the "priority watch list". Copyright enforcement appears to be improving. Classification of copyright infringements as "cognisable offenses" theoretically expands police search and seizure authority. While the formation of appellate boards under the new legislation should speed prosecution, local attorneys indicate that some technical flaws in the laws, which require administrative approval prior to police action, need to be corrected.

8. Worker Rights

a. *The Right of Association.*—India's constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent roughly 2 percent of the total workforce, or about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively.*—Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor.*—Forced labor is prohibited by the Constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor". Despite 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 for Employment of Children.*—Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The government estimates that 17 million Indian children from ages 5 to 15 are working. 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 ensure 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—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		308
Food & Kindred Products	25	
Chemicals and Allied Products	166	
Metals, Primary & Fabricated	9	
Machinery, except Electrical	84	
Electric & Electronic Equipment	5	
Transportation Equipment	5	
Other Manufacturing	14	
Wholesale Trade		37
Banking		442
Finance/Insurance/Real Estate		(1)
Services		23
Other Industries		(2)
TOTAL ALL INDUSTRIES		818

[1] Suppressed to avoid disclosing data of individual companies.
[2] Indicates a value between $-500,000 and $500,000.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PAKISTAN

Key Economic Indicators [1]

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

	1993	1994	1995
Income, Production and Employment:			
Real GDP ('81 prices) [2]	18,897	16,887	17,280
Real GDP Growth (percent) [3]	2.3	3.8	4.7
GDP (at current prices) [2]	46,159	46,553	54,531
GDP by Sector:			
Agriculture	11,454	11,699	13,794
Energy and Water	1,485	1,393	1,745
Manufacturing	7,972	8,174	9,746
Construction	1,915	1,829	2,013
Rents	2,063	2,053	2,313
Financial Services	1,362	1,491	1,670
Other Services [4]	15,983	16,137	18,532
Government, Health and Education	3,636	3,486	4,228
Net Exports of Goods and Services	−3,145	−1,428	−1,977
Per Capita GDP (current US$)	383	375	427
Labor Force (millions)	33.7	34.7	35.7
Unemployment Rate (percent)	4.7	4.7	4.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	18.0	16.9	16.6
Base Interest Rate [5]	18.0	19.0	21.0
Personal Saving Rate [6]	13.5	11.6	12.3
Wholesale Inflation	7.1	15.0	16.3
Consumer Price Index	9.3	11.2	12.9
Exchange Rate: (Rs/US$—annual average):			
Official	26.0	30.2	30.9

Key Economic Indicators [1]—Continued

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

	1993	1994	1995
Parallel	27.5	30.6	32.1
Balance of Payments and Trade:			
Total Exports FOB [7]	6,782	6,685	7,884
Exports to U.S.	945	978	1,316
Total Imports CIF [7]	10,049	8,685	10,137
Imports from U.S.	940	907	976
Aid from U.S. (U.S. FY)	45	3	22
Aid from other Countries	2,437	2,530	2,584
External Public Debt	20,810	23,498	24,437
Debt Service Payments	1,973	2,335	3,414
Gold and Foreign Exchange Reserves (end-FY)	1,369	3,337	3,739
Trade Balance [7]	−3,267	−2,000	−2,253
Balance with U.S. [7]	5	71	340

[1]Unless otherwise stated, figures are for the Pakistan fiscal year ending June 30 of the year shown.
[2]GDP at factor cost.
[3]Percentage changes calculated in local currency.
[4]Includes transport, storage, communication, wholesale and retail trade, and other services.
[5]Actual average annual interest rates, not changes in them, on commercial bank loans to private commercial borrowers.
[6]Percent of GNP.
[7]Merchandise trade.

1. General Policy Framework

Since the late 1980's Pakistan has pursued, with mixed success, policies aimed at private sector-led development, macroeconomic stability and structural reforms. Implementation has been uneven. Import tariffs remain quite high as the government seeks to protect local industry and generate fiscal revenues. Nonetheless, the government appears to remain broadly committed to market-oriented policies, and the main opposition party shares a commitment to this general framework.

Pakistan's real GDP grew by 4.7 percent in the 1994–95 fiscal year that ended in June 1995, below the government's target and most observers' estimate of the country's potential. Despite strong export growth, Pakistan ran a trade deficit of $2.3 billion that year. U.S. exports to Pakistan in 1994–95 totaled $976 million, and the United States had a deficit of $340 million in our bilateral trade.

The current government led by the Pakistan Peoples Party (PPP) was elected to office in October 1993 following a period of political and economic instability. In March 1994 it received IMF Board approval of a three-year Enhanced Structural Adjustment Facility (ESAF) to support various reforms to enhance macroeconomic stability, reduce trade protection, privatize state-owned enterprises, and strengthen market-oriented monetary management.

Performance through most of 1994 was good, but the government failed to meet its target for reducing its budget deficit to four percent of GDP in FY 1994–95. Furthermore, in June 1995 the government announced policies that backtracked on earlier commitments to reduce the fiscal deficit and lower import tariffs. Following the resulting suspension of the ESAF program, the economy in the second half of 1995 was marked by a growing trade deficit, sharply declining foreign exchange reserves, currency instability, and continued high inflation.

In response, the government in late October 1995 announced a package of stabilization measures: it devalued the rupee by seven percent, imposed a temporary import surcharge on most products, raised administered prices of petroleum products, tightened fiscal and monetary policies, and offered various export incentives. While deemed necessary for fiscal and balance of payments purposes, some of these measures set back progress on needed trade reform. The government and the IMF agreed in late 1995 on a new standby arrangement that could eventually lead to renewed IMF support for structural adjustment.

Pakistan became a founding member of the World Trade Organization on January 1, 1995.

2. Exchange Rate Policies

The value of the rupee is determined according to a managed float, with the central bank (the State Bank of Pakistan, SBP) making regular adjustments against a basket of major currencies. The U.S. dollar is used as an intervention currency to determine other rates. Authorized foreign exchange dealers are allowed to trade

at an open market rate that has usually varied only slightly from the official rate. The SBP seeks to follow a policy that balances exchange rate stability with the imperatives of competitiveness. Among other things, it closely watches the currencies of regional and other trade competitors in managing the rupee's value. In the face of domestic inflation, declining exports and foreign exchange reserves, and perceived overvaluation against competitors' currencies, the authorities have devalued the rupee by about 10 percent since July 1995. The exchange rate on January 12, 1996 was 34.34 rupees per USD.

Over the past few years, foreign exchange controls have been significantly liberalized, and the rupee is now fully convertible on the current account. Individuals and firms resident in Pakistan may hold foreign currency bank accounts and may freely move foreign currency into and out of the country. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior SBP approval.

3. Structural Policies

The government of Pakistan has made efforts to implement structural reforms, including tax and trade reforms and reducing the state's role in the economy. On the tax side, the authorities recognize the need to shift from dependence on high customs revenues, which hurts both U.S. exports to Pakistan and the long-term competitiveness of Pakistani industry, to taxes on consumption and income. The government has reduced tariffs on many products, has lifted some bans and quantitative restrictions, and has announced that it intends to fulfill its World Trade Organization commitments.

As part of these trade reforms, the government in FY 1993–94 began a three-year program to reduce maximum tariffs from 90 percent and above to 35 percent. It has proved unable to meet this schedule while also reducing the overall fiscal deficit. In FY 1995–96 maximum tariffs were set at 65 percent, compared with the original target of 45 percent; to this was added an additional temporary surcharge of from five to 10 percent on most imports under this ceiling. The government retains its trade and tax reform goals and is considering instituting a general sales tax on retail commerce, which might permit lower import duties. To date, however, the government has made little progress in either increasing tax revenues as a share of GDP or shifting the tax burden away from imports.

Successive governments have made efforts to privatize some state-owned enterprises, having sold off about 70 industrial firms and two commercial banks since 1991. The current government plans to privatize the public telephone monopoly, some energy utilities, and more banks in the next few years and welcomes foreign investment in these transactions. The government also offers various incentives for new private foreign investment in numerous sectors.

Implementation of regulatory and other policies often lags behind official pronouncement, and political interference in government procurement decisions is reportedly common. Furthermore, the state continues to administer prices of key commodities such as wheat and energy products.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs, and its total external debt has grown in recent years. According to the State Bank of Pakistan, total external debt as of June 30, 1995, was $24.4 billion. Total external debt has remained constant at about 40 percent of GDP in the 1990's. However, debt service payments as a share of total foreign exchange earnings have grown from 18.8 percent in 1990 to 27.9 percent in 1995.

Pakistan has a historically excellent record for honoring external debt obligations, even during periods of fiscal crisis. Nonetheless, in July 1995, as a result of political violence, a growing current account deficit and suspension of the IMF's ESAF program, two U.S. credit rating services downgraded Pakistan's public debt rating. However, the government has taken steps to reduce external imbalances and has actively and cooperatively sought support from the international financial institutions for its policies. The government has also striven to maintain good relations with foreign commercial creditors. The availability of financing is likely to continue to be an important determinant of export success for U.S. companies.

5. Significant Barriers to U.S. Exports

Import licenses: In recent years Pakistan has significantly reformed its restrictive import regime. Since July 1993, import licenses, formerly common, have been abolished on all "freely importable" goods, i.e., on all items not on the "Negative List" of items that are banned mostly for religious, health or security reasons, or in accordance with international agreements. The Negative List has been sharply re-

duced in recent years, from 215 categories of products in 1989–90 to 75 in 1994–95.

Services barriers: Several sectors, including banking, insurance, transportation and telecommunications, are affected by services barriers. Portions of major service industries are nationalized and run by the government. For example, foreign banks are generally restricted to having at most four branches, are subject to higher withholding taxes than domestic banks, and face restrictions on doing business with state-owned corporations. New foreign entrants to the general insurance market are effectively barred, and those to the life insurance market, while not legally barred, face severe obstacles, such as various tax problems, long delays in remitting profits, and problems associated with operating within a cartelized industry. Basic telephony remains the monopoly of the state-owned Pakistan Telecommunications Corporation, but competition among private providers is now allowed in cellular communications. Foreign brokers are allowed to join one of the country's three stock exchanges only as part of a joint venture with a Pakistani firm. Motion pictures face high tax rates, as well as the practice of including the royalty value in the dutiable value of films imported for showing in theaters.

Standards, testing, labeling, and certification: Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against American farm products.

Investment barriers: Pakistan has liberalized significantly its investment regime and actively encourages inward foreign investment. While foreign nationals may invest in many sectors up to 100 percent ownership without prior government approval, other sectors (such as financial services) are subject to ownership limits. Foreign investment is prohibited in the following sectors: arms and ammunition, security printing (currency and mint), radioactive substances, and non-industrial alcohol. Foreign investors are not allowed to own land for agriculture, forestry, irrigation, or real estate but, with the approval of the relevant provincial government, can obtain long-term leases on land for commercial and industrial purposes and may in some cases own land through joint ventures with Pakistani citizens. Where investment is allowed, repatriation of profits (except, as noted, for insurance companies), dividends, and (except for banks) capital is freely allowed. Foreign investors are statutorily accorded national treatment in industrial sectors, but not in non-industrial sectors, including financial services.

The government offers investment incentives, such as tax holidays, in various sectors. Additional incentives apply to rural areas, "less developed areas," and those designated as Export Processing Zones (EPZs) or Special Industrial Zones. The government provides incentives for private, including foreign, investment in electric power generation; numerous foreign firms have submitted proposals for new plants. It is also encouraging foreign investment in oil and gas exploration and development, and in state-owned enterprises that are to be privatized.

Local content requirements can occur in the automobile, electronics, electrical products and engineering industries under an import substitution program. While participation in the program is not compulsory, investors who commit to increase the local content of their output enjoy lower tariffs on imported inputs, but they may be fined if they then fail to comply with an agreed-upon import deletion schedule.

Government procurement: The government, along with its numerous state-run corporations, is Pakistan's largest importer. Work performed for government agencies, including purchase of imported equipment and services, is usually awarded through tenders that are publicly announced and/or issued to registered suppliers. The government subscribes to principles of international competitive bidding, but political influence on procurement decisions is common, with decisions not always made on the basis of price and technical quality alone. Delays in bureaucratic decision-making are common.

Customs procedures: Investors sometimes complain of a gulf between incentives advertised at the policy level and on-the-ground implementation, and these complaints often relate to customs problems. For example, obtaining preferential tariff rates is usually subject to the proviso that similar goods are not produced domestically. Disputes sometime arise over this provision, with investors arguing that local output, while available, does not meet their specifications. Investors also cite arbitrary and inconsistent customs valuations and frequent changes in rates. Delays are also reported in administration of the "duty drawback" scheme, which refunds partial tariff charges on imported inputs once the final output they were used for is exported. Charges that customs officers demand bribes are also common.

U.S. firms exporting various industrial and agricultural products have complained of problems with implementation of Pakistan's pre-shipment inspection (PSI) system, run by the Swiss firms SGS and Cotecna. They contend that PSI price verifica-

tion procedures result in significant overvaluation of U.S. exports to Pakistan. Problems have also arisen over the sometimes conflicting roles of the PSI firms and Pakistani Customs authorities. The U.S. has expressed its concern to Pakistan about the difficulties reported by U.S. firms, and has urged Pakistan to resolve this matter.

6. Export Subsidies Policies

Pakistan actively promotes the exports of Pakistani goods with government financing measures, the tariff rebate scheme noted above and other tariff concessions on imported inputs, tax concessions, and government-sponsored exhibitions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan's main export is cotton textile products, and until 1994 the government taxed raw cotton exports in order to keep its price low for domestic manufacturers. Cotton exports are no longer taxed, but they must be registered with the Export Promotion Bureau, and domestic textile producers continue to call for the reimposition of the tax.

7. Protection of U.S. Intellectual Property

Pakistani laws on protecting intellectual property rights (IPR) are generally adequate, but enforcement is weak, resulting in widespread piracy, especially of copyrighted materials. As a result, Pakistan has been on the Special 301 IPR "Watch List" since 1989. Recently, however, the authorities have taken some steps to strengthen enforcement, including raids on several pirated-video rental shops, and the government has pledged to continue such efforts. As a World Trade Organization (WTO) member, Pakistan is subject to the terms of the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). Pakistan is also a member of the World Intellectual Property Organization. The U.S.-Pakistan Treaty of Friendship and Commerce guarantees national and most favored nation treatment for patents, trademarks and industrial property rights. Pakistan is not a member of the Paris Convention on industrial property or the Berne Convention on copyright but is a member of the Universal Copyright Convention.

Patents: Current law protects only process patents, though the government is committed to eventually offering product patents in accordance with WTO obligations. As of late 1995, a draft amendment to the law was under ministerial review that would allow establishment of the "mailbox" for accepting product patent applications for pharmaceuticals and agricultural chemicals. Patent infringement is not common.

Trademarks: There have been occasional instances of infringement, including of trademarks for toys and industrial machinery.

Copyrights: The markets for imported computer software and, until recently, film videos, are nearly 100 percent pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are exported to other markets. However, at least one local firm is now distributing legitimate, copyrighted videotapes produced by U.S. film studios. And as a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate product. However, more effective prosecution and sentencing of violators is required.

The impact on U.S. exports of weak IPR protection in Pakistan is substantial, though difficult to quantify. In the area of copyright infringement alone, the International Intellectual Property Alliance estimates that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $62 million in 1994.

8. Worker Rights

a. *The Right of Association.*—The Industrial Relations Ordinance of 1969 enunciates the right of industrial workers to form trade unions but is subject to major restrictions in some employment areas. In practice, labor laws place significant constraints on the formation of industrial unions and their ability to function effectively. For example, there is no provision in the law granting the right of association to agricultural workers. The law also prohibits workers in export processing zones from forming trade unions. The Essential Services Maintenance Act of 1952 restricts normal union activities in sectors associated with ""the administration of the State," e.g. government services and some public utilities, but the government has reduced its application.

b. *The Right to Organize and Bargain Collectively.*—The right of industrial workers to organize and freely elect representatives to act as collective bargaining agents is established in law. Unions may belong to federations. There are seven major federations which are free to affiliate with international federations and confederations. The government permits trade unions of all political orientations. However, the many restrictions on forming unions discussed above preclude collective bargaining by large sections of the labor force, e.g. agricultural workers, who are

not guaranteed the right to strike, bargain collectively, or make demands on employers. Legally required conciliation proceedings and cooling-off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community." Strikes are rare and, when they occur, are usually illegal and short. The government regards as illegal any strike conducted by workers who are not members of a legally registered union. The law does not protect leaders of illegal strikes.

c. *Prohibition of Forced or Compulsory Labor.*—The Constitution and the law prohibit forced labor. However, illegal bonded labor is widespread. Bonded labor is common in the brick, glass, and fishing industries and is found among agricultural and construction workers in rural areas. Conservative estimates put the figure of bonded workers at several million. The "Bonded Labor System (Abolition) Act," adopted in 1992, outlawed bonded labor, canceled all existing bonded debts, and forbade lawsuits for the recovery of existing debts. However, the provincial governments, which are responsible for enforcing the law, have failed to establish enforcement mechanisms, and the law is largely ineffective.

d. *Minimum Age for Employment of Children.*—Child labor is common and results from a combination of severe poverty, employer greed, and inadequate enforcement of laws intended to control it. While much child labor is in the traditional framework of family farming or small business, the employment of children in larger industries is also widespread. Child labor is widely employed in the carpet industry, much of which is family-run. Children have also been employed in other export industries, such as textiles, leather tanning, surgical instruments, and sporting goods, though the extent is unclear. The government has made some efforts to improve enforcement of laws against child labor and is cooperating with the ILO on a range of programs with the goal of eliminating child labor.

e. *Acceptable Conditions of Work.*—Labor regulations are governed by federal statutes applicable throughout the country. The law provides for a monthly minimum wage of about $44 (1,500 rupees), a maximum workweek of 54 hours, rest periods during the workday, and paid annual holidays. Although this wage provides a meager subsistence living for a small family, minimum wage benefits and other regulations affect only a small part of the work force, and most families are large. Many workers are unaware of the regulations protecting their rights because of their lack of education. The provinces have been ineffective in enforcing labor regulations, because of limited resources, corruption, and inadequate regulatory structures. In general, health and safety standards are poor.

f. *Rights in Sectors With U.S. Investment.*—Significant investment by U.S. companies has occurred in the petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for workers rights and labor standards. In general, multinational employers do better than most employers in fulfilling their legal obligations, providing good benefits and conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector. The oil and gas industry is subject to the "Essential Services Maintenance Act," which bans strikes and collective bargaining, limits a worker's right to change employment, and affords little recourse to a fired worker.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994

[Millions of U.S. dollars]

Category	Amount	
Petroleum		79
Total Manufacturing		26
Food & Kindred Products	2	
Chemicals and Allied Products	27	
Metals, Primary & Fabricated	−3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		5
Banking		170
Finance/Insurance/Real Estate		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1994—Continued

[Millions of U.S. dollars]

Category	Amount
Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	280

[1] Indicates a value between $-500,000 and $500,000.

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

O